

August 23, 2015

Craig Pirrong at Streetwise Professor continues his Elon Musk skepticism.

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So why is SpaceX buying these up? According to SolarCity's Vice President of Financial Products, Tim Newell, the answer is "very straight forward." The bonds offered SpaceX an attractive rate of return for a one-year investment compared to other investment options out there. SpaceX carries a fair amount of cash at times, noted Newell, and the company wanted to put that cash to work in the short term with a high degree of reliability

Sure. If it's offering such a great rate of return, why isn't anyone else buying it? And why does it have to offer a better rate than "other investment options out there"? A more plausible story is that the bonds weren't selling, or that they would only sell at yields Musk didn't want to pay, so he had to use one of his companies to prop up another. Those kinds of shell games can only last so long.

Moreover, some executives have left, most recently the head of service, who is taking a leave of absence. This follows the departure of the CFO (announced in June).

Then there is the recent Tesla earnings report, which showed that despite the massive subsidies it has received, it still can't earn a GAAP profit and, is burning cash at a hellacious rate, \$565 million in the last quarter alone. ...

One of our country's best writers, Malcolm Gladwell, reports on studies of Katrina post-partum New Orleans neighborhoods.

The first time that David Kirk visited New Orleans after Hurricane Katrina was at the end of 2005. His in-laws were from the city. Kirk and his wife visited them at Christmas, just four months after the storm hit, and then went back again on several more occasions throughout 2006. New Orleans was devastated. Thousands had fled. "I'll admit I'd drive around the Lower Ninth, taking it all in, feeling a little guilty about being the gawking tourist," Kirk said not long ago. "It made an impression on me. These neighborhoods were gone."

Kirk is a sociologist at the University of Oxford. He trained at the University of Chicago under Robert Sampson, and, for Sampson and the small army of his former graduate students who now populate sociology departments around the world, neighborhoods are the great obsession: What effect does where you live have on how you turn out? It's a difficult question to answer because the characteristics of place and the characteristics of the people who happen to live in that place are hard to untangle. As Kirk drove around the Lower Ninth, however, he realized that post-Katrina New Orleans provided one of those rare occasions when fate had neatly separated the two variables. In the course of bringing immeasurable suffering to the people of New Orleans, Katrina created what social scientists call a "natural experiment": one day, people were in the neighborhoods where they had lived, sometimes for generations. The next day, they were

gone—sometimes hundreds of miles away. “They had to move,” Kirk said. What, he wondered, were the implications of that? ...

... Kirk’s idea was to look at convicted criminals from New Orleans who had been released from prison after Katrina. As a group, they were fairly homogeneous: largely black, largely poor. For years, their pattern was to return to their old neighborhoods after they were released: to their families, homes, social networks. But for some, by the most random of circumstances, that was now impossible. Their neighborhoods—the Lower Ninth, New Orleans East—had been washed away. How did the movers compare with the stayers? ...

... One of the tragedies of Katrina was that so many of New Orleans’ residents were forced to move. But the severity of that tragedy is a function of where they were forced to move to. Was it somewhere on the Salt Lake City end of the continuum? Or was it a place like Fayetteville? The best answer we have is from the work of the sociologist Corina Graif, who tracked down the new addresses of seven hundred women displaced by Katrina—most of them lower-income and black. By virtually every measure, their new neighborhoods were better than the ones they had left behind in New Orleans. Median family income was forty-four hundred dollars higher. Ethnic diversity was greater. More people had jobs. Their exposure to “concentrated disadvantage”—an index that factors in several measures of poverty—fell by half a standard deviation.

The women weren’t going to Fayetteville but, rather, to places like Houston. “For low-income people in the South, Houston is a pretty darn great place,” Hendren said. “It’s not a beacon of phenomenal upward mobility like Salt Lake City. But it’s kind of the Salt Lake City of the South.” The odds of going from the bottom to the top in Houston are 9.3 per cent, which puts it fifteenth out of the top fifty U.S. metro areas.

“I think that what’s happening is that a whole new world is opening up to them,” Graif said. “If these people hadn’t moved out of the metro area, they would have done the regular move—cycling from one disadvantaged area to another. The fact that they were all of a sudden thrown out of that whirlpool gives them a chance to rethink what they do. It gives them a new option—a new metro area has more neighborhoods in better shape.”

That is, more neighborhoods in better shape than those of New Orleans, which is a crucial fact. For reasons of geography, politics, and fate, Katrina also happened to hit one of the most dysfunctional urban areas in the country: violent, corrupt, and desperately poor. A few years after the hurricane, researchers at the University of Texas interviewed a group of New Orleans drug addicts who had made the move to Houston, and they found that Katrina did not seem to have left the group with any discernible level of trauma. That’s because, the researchers concluded, “they had seen it all before: the indifferent authorities, loss, violence, and feelings of hopelessness and abandonment that followed in the wake of this disaster,” all of which amounted to “a microcosm of what many had experienced throughout their lives.”

Katrina was a trauma. But so, for some people, was life in New Orleans before Katrina. ...

... The way New Orleans handled public education after Katrina was very different. New Orleans had one of the worst-performing public-school systems in the country: the year before the storm, sixty-two per cent of public-school students in the city were enrolled in a school rated F by the state of Louisiana. The government decided to start over. All of the city’s public-school teachers were fired. Public education was changed—in the words of one city official—from “a school system” to “a system of schools.” In the most radical educational experiment in the country, students were allowed to apply anywhere they chose throughout the city, principals were given wide autonomy, and countless school buildings were renovated or rebuilt. The educational

system, in the wake of a hurricane that battered its buildings, doubled down and finished the job itself. ...

... At the same time, however, Katrina reminds us that sometimes a clean break with the past has its advantages. The fact that you may have lived in a neighborhood for generations, or become attached to a set of long-standing educational traditions, does not mean that you should always return to that neighborhood if you are displaced, or reconstruct those traditions. The schools of New Orleans made a necessary and painful sacrifice: they extended the pain of Katrina in order to build a better future for the city's children. Those who chose to stay in Houston made the same hard choice. The calculations done in the Chetty-Hendren-Kline-Saez study concern the benefits of good neighborhoods for the children of the people who move. The child who moves from Central City to Salt Lake City at the age of five or six gets the benefit of all of his or her education in a better school, an adolescence largely free of violence and crime, and an early adulthood in a place with jobs and opportunities. The benefits are less obvious for the parents: they leave behind their networks and family ties and the pleasures of crawfish. In the past ten years, much has been said, rightly, about the resilience and the spirit of those who chose to rebuild the neighborhoods they had lost. It is time to appreciate as well the courage of those who, faced with the same disaster, decided to make a fresh start.

NY Times OpEd calls on universities to stop hoarding money.

WHO do you think received more cash from Yale's endowment last year: Yale students, or the private equity fund managers hired to invest the university's money?

It's not even close.

Last year, Yale paid about \$480 million to private equity fund managers as compensation — about \$137 million in annual management fees, and another \$343 million in performance fees, also known as carried interest — to manage about \$8 billion, one-third of Yale's endowment.

In contrast, of the \$1 billion the endowment contributed to the university's operating budget, only \$170 million was earmarked for tuition assistance, fellowships and prizes. Private equity fund managers also received more than students at four other endowments I researched: Harvard, the University of Texas, Stanford and Princeton. ...

... But the amount universities pay to private equity reveals the deeper problem: We've lost sight of the idea that students, not fund managers, should be the primary beneficiaries of a university's endowment. The private-equity folks get cash; students take out loans.

As part of the reauthorization of the Higher Education Act expected later this year, Congress should require universities with endowments in excess of \$100 million to spend at least 8 percent of the endowment each year. Universities could avoid this rule by shrinking assets to \$99 million, but only by spending the endowment on educational purposes, which is exactly the goal. ...

Streetwise Professor

Is Elon Musk's Flim-Flam Beginning to Unravel?

by Craig Pirrong

I've long been an Elon Musk skeptic. He struck me as [Harold Hill-esque con man](#), and an aspiring cult leader.

[Izabella Kaminska at FT Alphaville has come to the same conclusion](#). (I appreciate her giving extended play to my posts on Musk, and for pointing out that I've "never bought the hype.") Her last sentence says it all, in a rhetorically questioning kind of way: "Who was it again that said "the bigger the lie, the more it will be believed"?"

Exactly.

There are some major cracks beginning to show in the Musk facade. [The most telling is the fact that one Musk entity-SolarCity-sold \\$165 million in bonds \(that are backed by the cash flows from SCTY's solar installations\) to another Musk entity, SpaceX](#) (which just experienced an embarrassing spacecraft malfunction.) When money is taken out of the left pocket to put into the right pocket, eyebrows should be raised. Especially when the explanation is this lame:

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Moreover, some executives have left, most recently the [head of service, who is taking a leave of absence](#). This follows the departure of the CFO (announced in June).

Then there is the recent Tesla earnings report, which showed that despite the massive subsidies it has received, it still can't earn a GAAP profit and, and is [burning cash at a hellacious rate](#), \$565 million* in the last quarter alone. Further the company revealed that it almost certainly will miss its sales target of 55,000, perhaps by as much as 10 percent. The introduction of the Model X is being pushed back yet again. The company had been counting on China for future growth. Performance there had been disappointing, and China's current economic troubles (which include a huge automobile inventory overhang) make it an unlikely future savior.

But Musk responded in his typical supercilious fashion:

Rather sanctimoniously, the carmaker said that it would prioritise "a great product" over quarterly numbers. Investors have probably understood that by now. Just in case of doubt, Mr Musk followed up on the earnings call with: "We don't want to set high expectations... Winning needs to feel like winning."

Just a suggestion: channeling one's inner Charlie Sheen is probably not a good idea.

There is also a medium-to-long term risk for Tesla, and a deliciously ironic one (though it is somewhat hedged by SolarCity). Specifically, Musk is an anthropogenic climate change true believer who touts electric automobiles as a way of combatting it. The EPA's recent proposed regulation of CO2 is also targeted at climate change. Though by its own admission will do virtually nothing to ameliorate temperature increases, the regulation will make electricity much more expensive: that's a certainty. Estimates are in the range of 10-20 percent. That makes electric cars that much less attractive. Higher energy costs will also reduce income, leading to lower demand for Tesla vehicles, but will also reduce the demand for petroleum, which will lead to lower gasoline prices which will also negatively impact demand for Teslas: the EPA regulation will therefore cause both income and substitution effects that are harmful to Tesla (though again SolarCity will benefit from the EPA plan). Meaning that one green dream will cannibalize another.

For those who see Tesla as more of a battery company than a car company, higher electricity prices hurt the storage battery business too.

But no doubt Elon will turn his attention to doing what he does best: importuning the government to subsidize him. I lay heavy odds that we will see an effort to increase or extend subsidies to electric vehicles with the specific purpose of offsetting the effect of EPA regulations on the sales of electric cars. Just watch. If the markets are becoming less enamored with Elon, there are still plenty of suckers for his shtick in government.

*Thanks to commenter Highgamma for catching this.

New Yorker **Starting Over**

Many Katrina victims left New Orleans for good. What can we learn from them?

Social scientists find that leaving a dysfunctional urban neighborhood can transform a family's prospects.

by Malcolm Gladwell

The first time that David Kirk visited New Orleans after Hurricane Katrina was at the end of 2005. His in-laws were from the city. Kirk and his wife visited them at Christmas, just four months after the storm hit, and then went back again on several more occasions throughout 2006. New Orleans was devastated. Thousands had fled. "I'll admit I'd drive around the Lower Ninth, taking it all in, feeling a little guilty about being the gawking tourist," Kirk said not long ago. "It made an impression on me. These neighborhoods were gone."

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Orleans, Katrina created what social scientists call a “natural experiment”: one day, people were in the neighborhoods where they had lived, sometimes for generations. The next day, they were gone—sometimes hundreds of miles away. “They had to move,” Kirk said. What, he wondered, were the implications of that?

“I worked my connections to see who would talk to me,” Kirk went on. “It turned out that one of my colleagues at the University of Maryland had done research on boot camps in Louisiana. Ultimately, I got in touch with someone who is now the head of the prison system, a guy named James LeBlanc.” Kirk’s idea was to look at convicted criminals from New Orleans who had been released from prison after Katrina. As a group, they were fairly homogeneous: largely black, largely poor. For years, their pattern was to return to their old neighborhoods after they were released: to their families, homes, social networks. But for some, by the most random of circumstances, that was now impossible. Their neighborhoods—the Lower Ninth, New Orleans East—had been washed away. How did the movers compare with the stayers?

“This was December, 2006,” Kirk recounted. “I asked for a few things. I wanted information on where prisoners were living prior to Katrina. And I also wanted information on where they were living after release. I basically got an address file from the Department of Corrections for everyone who came out of prison from 2001 to 2007. It was extremely messy. They don’t necessarily collect data in a way that makes it easy to geo-code. There would be notes like ‘This is grandma’s telephone line.’ I went line by line to clean it up.” He wound up with a list of three thousand individuals. His interest was recidivism: Were those people who came out of prison and found their entire world destroyed more likely or less likely to end up back in prison than those who could go home again? Kirk looked first at the results one year and three years after release and has since been working on an eight-year study. The results aren’t even close. Those who went home had a recidivism rate of sixty per cent. Those who couldn’t go home had a rate of forty-five per cent. They moved away. Their lives got better.

“This spring, I was on a radio talk show in Houston, Sunday morning,” Kirk said. “This guy was listening. He called me up. He is a crack addict, with multiple incarcerations for burglary and theft. This is a guy who grew up in Arkansas, didn’t have a very good childhood. He went down to Louisiana, and spent his entire adult life in New Orleans. Then he moved to Houston. I don’t know his exact age, maybe a fifty-year-old black male. And this is what he told me: ‘Now, I hate that the storm came because a lot of people died in the storm, but, guess what, that was probably the best thing that could have happened to a lot of people, because it gave them the opportunity to reinvent themselves if their life wasn’t going right.’ ”

New Orleans is a city framed by two major bodies of water. Its northern edge is Lake Pontchartrain, which empties into the Gulf of Mexico. Running through the southern part of the city is the Mississippi. Connecting the two—lake and river—is the Industrial Canal, built almost a century ago. It runs right down the middle of the Ninth Ward, separating the Upper Ninth, which includes the rapidly gentrifying neighborhoods of the Bywater, from the Lower Ninth, a smaller, isolated rectangle on the eastern edge of the city.

The most affluent parts of the city are on the river side: the Garden District, Uptown, the St. Charles and Magazine Street arteries. This is the historic New Orleans of grand houses, Audubon Park, and Tulane University. Richard Campanella, a geographer at the university, calls the area the “white teapot” of New Orleans—“teapot” for the way it follows the curving path of the Mississippi. As a delta plain, New Orleans has the curious effect of building uphill toward the river, so the teapot is on high ground. East and north of the teapot is Central City. It is almost all black. “Historically, the Central City population tends to be post-emancipation, urban migrants, coming in from the plantation regions, sugarcane fields, and the cotton fields in Mississippi and

upriver,” Campanella said. “They were more likely to be Protestants, more likely to be ‘Anglo’ African-Americans—English-speaking, etc.” Campanella was in his office at Tulane, the heart of the white teapot. Central City was a ten-minute drive away, but it could have been across the ocean. Beyond Central City is Treme. The historical roots of Treme are much older—in the black Creole communities that date back to French and Spanish colonial times. “Many are descendants of the free-people-of-color population,” Campanella said. “Many of them were in the skilled trades, many of them professionals. They had a bit of access to the middle class.”

Using census data, Campanella has created a computerized map of New Orleans, in which the city is divided up into thousands of little squares—each representing a city block and each color-coded according to the predominant race of that specific area’s residents. He put the map up on his computer screen and pointed to the river side of the Lower Ninth. “Up until the nineteen-sixties, you would have seen mostly working-class to middle-class ethnic whites living here,” he said. “After school integration, we had white flight over here”—he highlighted St. Bernard’s Parish, directly across the city line—“at which point the Lower Ninth became about ninety-five per cent black.” He pointed to the Seventh and Eighth Wards. In the nineteen-sixties and seventies, blacks from neighborhoods like Treme moved upward toward the lake, to places like Pontchartrain Park and Gentilly. The whites who had been there moved to the suburbs. “There was a very rapid turnaround,” Campanella said. The lines between black and white hardened, and, for a generation, New Orleans was laid out like a checkerboard. If you were African-American and lived in Central City or Treme or the Lower Ninth, chances were that your parents lived there, too, and maybe even your grandparents—perhaps even in the same house.

What Campanella was describing in New Orleans is the classic pattern of African-American demographic mobility. For crucial periods of this country’s history, African-Americans were far more likely than whites to be mobile—to move across state or regional lines. New Orleans was shaped by the first of those waves: the former plantation slaves who moved to urban areas after emancipation. The second of those waves was the Great Migration, extending into the middle of the last century, when hundreds of thousands of African-American families in the South made the long journey to the industrialized North in search of economic opportunity.

But from 1970 to the present the reverse has happened. Black Americans are much more likely to stay in place and much less likely than whites to engage in what the sociologist Patrick Sharkey calls “contextual mobility”—moves significant enough to change circumstances and opportunities. Robert Sampson once mapped the movement of African-Americans participating in a Chicago housing experiment over a seven-year period starting in the mid-nineteen-nineties, and the graphic consists of tight clusters of very short lines—spanning a few city blocks, or extending one or two neighborhoods over. How often do African-Americans from the poorest neighborhoods of the South Side leave the city of Chicago? “Rarely,” Sharkey said.

What happens instead is “churning”—minor moves in which the new home pretty much replicates the environment and the conditions of the old home. The sociologist Stefanie DeLuca recently interviewed poor African-American families in Baltimore and Mobile about their reasons for moving, and No. 1 on the list was “unit failure”: their home became so unlivable that they had no choice but to look for another place. They moved not because they were deliberately choosing a better life but because they had to—because the landlord evicted them, or the rent went up, or they suffered through a breakup, or there was a change in their housing subsidy. Here, from her research, is a typical response:

We had no heat. And I had just had my daughter. She was two weeks old. No heat. When he came and fixed it, a wire caught on fire inside of there, you know how sometimes you’re supposed to put that black tape and stuff in there? And he rigged it up, it was smoking in there.

And I had just, I had brought my baby from the hospital that day. My daughter, and the wire, it was like, you know how a firecracker looks when you light it? That's how it was doing. I got so scared I grabbed her and ran out the door. Because it was going, okay, you know where all the wiring is in the top part of like a wall space heater, it was going up towards, I didn't know it was going to explode. And I'm like, I'm getting out of here. I didn't have no shoes on or nothing. I grabbed her, and I just ran out the door.

None of the reasons for moving that DeLuca collected are explicitly about schools or jobs, which are the kind of reasons that middle-class people give for moving. The exception is the 9.47 per cent of poor people's moves that are about "wanting to leave neighborhood conditions"—although one suspects that what was meant by "neighborhood conditions" is something different from what's meant when a young couple leave their walkup on the Upper West Side for a house in suburban New Jersey. African-Americans have become—to borrow the title of Sharkey's recent book—"stuck in place." Sharkey writes:

Over the past two generations, 48 percent of all African American families have lived in the poorest quarter of neighborhoods *in each generation*. The most common experience for black families since the 1970's, by a wide margin, has been to live in the poorest American neighborhoods over consecutive generations. Only 7 percent of white families have experienced similar poverty in their neighborhood environments for consecutive generations.

If a group of poor Americans are stuck in a bad place, then either the place they are stuck in needs to be improved or they need to move to a better place. Over the years, there have been numerous efforts to advance the second of these approaches—experimental projects, government initiatives—but they have been hard to execute on a large scale. Then came the storm.

Katrina blew in from the Gulf, bringing a storm surge across Lake Pontchartrain. Water squeezed through the city's navigation canals like a fire hose through a funnel, breaching the levees and flood walls that had been built to protect the city's low-lying neighborhoods. Pontchartrain Park and New Orleans East, where so many African-Americans had settled since the nineteen-sixties, were flooded. So were Treme and Central City. Campanella pointed to two spots along the Industrial Canal, which bisects the Ninth Ward. "The deepest floodwaters, the highest-velocity floodwaters, coming in from a two-hundred-foot-long breach right over here, and a nine-hundred-foot-long breach over here," he said, pointing to a flood wall that ran along the canal. "So the surge came in this way, from these man-made navigation canals as well as from the lake. It's piling up. It's putting pressure on these walls, and overtopping the levee and pouring in. In the canal, the water was fourteen feet above where it normally is. This land right here is four feet below sea level. So you have eighteen feet of head suddenly released."

By a combination of geography, history, and meteorology, Katrina disproportionately hit black New Orleans. These were the people whose homes were flooded, who camped out in the Superdome, who were evacuated to Baton Rouge or Lafayette or Houston—many of whom have never returned. The Lower Ninth had twenty thousand people before Katrina. Five years afterward, there were six thousand. In Mid-City, there are still abandoned houses and empty lots. Many of these people may have wanted to come back right after the storm. But the public schools were shut down, the city's main public hospital was a wreck, and the city's public-housing projects were shuttered.

Campanella then switched to an identically constructed map, only this time based on 2010 census data, and in bits and pieces on the screen there was a simple and arresting picture of what Katrina meant. In the neighborhoods that were once a dense black, many of the little

squares had thinned and turned gray. The sharp lines that once separated the teapot from Central City were now blurry: the white areas of the city were pushing north, into the vacuum left by the exodus. The Bywater was graying, as it gentrified still further. “Before Katrina, an American Community Survey estimate of New Orleans Parish population was four hundred and fifty-five thousand, and about sixty-eight per cent black,” Campanella said. “Now the latest estimate is three hundred and eight-four thousand, and it’s about sixty per cent black. The white population has largely reconstituted itself numerically. So if you do that math, we’re talking about seventy-nine to eighty thousand fewer African-Americans.” In the most traumatic manner possible, Katrina caused what social scientists normally consider a good thing—a major move—and that is why, a decade after it devastated the Gulf Coast, the storm continues to defy simple categorization.

“The main lesson of our analysis is that intergenerational mobility is a local problem,” the economists Raj Chetty, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez conclude in a landmark study of U.S. economic mobility, published last year. They mean that the things that enable the poor to enter the middle class are not primarily national considerations—like minimum-wage laws or college-loan programs or economic-growth rates—but factors that arise from the nature of your immediate environment. The neighborhoods that offer the best opportunities for those at the bottom are racially integrated. They have low levels of income inequality, good schools, strong families, and high levels of social capital (for instance, strong civic participation). That’s why moving matters: going to a neighborhood that scores high on those characteristics from one that does not can make a big difference to a family’s prospects.

Chetty and his co-authors established their point in a number of ways. Suppose, they said, you look at parents who earn in the first quintile—that is, the bottom fifth of the U.S. income distribution. What are the odds that one of their children will—by the time that child reaches adulthood—make it into the top fifth of the income distribution? Those odds, they found, vary dramatically from one city to the next. In San Jose, for example, the probability is 12.9 per cent. San Jose, clearly, has a lot of good neighborhoods. So does Salt Lake City, where the probability of a bottom-quintile-to-top-quintile shift is 10.8 per cent. At the other end of the spectrum is Charlotte, North Carolina, where the probability is 4.4 per cent: a poor child is almost three times more likely to reach the top in San Jose than he or she is in Charlotte.

In a second analysis, Chetty and Hendren assigned a value to every major metro area in the country, according to how much more (or less) a child can expect to earn depending on the city where he or she grew up. The No. 1 urban area, by this measure, is Seattle, at 11.6 per cent: by the age of twenty-six, the child of a family in Seattle earning just above the poverty line will make 11.6 per cent more than would otherwise have been expected. The place bonus for Minneapolis is 9.7 per cent; in Salt Lake City, it is 9.2 per cent. Coming in last on the list of the hundred largest commuting zones in the country, by contrast, is Fayetteville, North Carolina, which has a place penalty of negative 17.8 per cent: the child of a poor person in that city will end up earning substantially less than he or she would otherwise have earned, simply by having been raised in Fayetteville.

One of the tragedies of Katrina was that so many of New Orleans’ residents were forced to move. But the severity of that tragedy is a function of where they were forced to move to. Was it somewhere on the Salt Lake City end of the continuum? Or was it a place like Fayetteville? The best answer we have is from the work of the sociologist Corina Graif, who tracked down the new addresses of seven hundred women displaced by Katrina—most of them lower-income and black. By virtually every measure, their new neighborhoods were better than the ones they had left behind in New Orleans. Median family income was forty-four hundred dollars higher. Ethnic

diversity was greater. More people had jobs. Their exposure to “concentrated disadvantage”—an index that factors in several measures of poverty—fell by half a standard deviation.

The women weren’t going to Fayetteville but, rather, to places like Houston. “For low-income people in the South, Houston is a pretty darn great place,” Hendren said. “It’s not a beacon of phenomenal upward mobility like Salt Lake City. But it’s kind of the Salt Lake City of the South.” The odds of going from the bottom to the top in Houston are 9.3 per cent, which puts it fifteenth out of the top fifty U.S. metro areas.

“I think that what’s happening is that a whole new world is opening up to them,” Graif said. “If these people hadn’t moved out of the metro area, they would have done the regular move—cycling from one disadvantaged area to another. The fact that they were all of a sudden thrown out of that whirlpool gives them a chance to rethink what they do. It gives them a new option—a new metro area has more neighborhoods in better shape.”

That is, more neighborhoods in better shape than those of New Orleans, which is a crucial fact. For reasons of geography, politics, and fate, Katrina also happened to hit one of the most dysfunctional urban areas in the country: violent, corrupt, and desperately poor. A few years after the hurricane, researchers at the University of Texas interviewed a group of New Orleans drug addicts who had made the move to Houston, and they found that Katrina did not seem to have left the group with any discernible level of trauma. That’s because, the researchers concluded, “they had seen it all before: the indifferent authorities, loss, violence, and feelings of hopelessness and abandonment that followed in the wake of this disaster,” all of which amounted to “a microcosm of what many had experienced throughout their lives.”

Katrina was a trauma. But so, for some people, was life in New Orleans before Katrina. In the Chetty-Hendren-Kline-Saez analysis, New Orleans has a bottom-to-the-top probability of 5.1 per cent, which is half a percentage point behind Detroit. And the place bonus / penalty for New Orleans? *Minus* 14.8 per cent, which puts it ninety-ninth out of the top hundred biggest urban areas in the country, ahead of only Fayetteville. “New Orleans?” Hendren said. “Horrible. Absolutely horrible. No question about it. It was one of the worst.”

Claiborne Avenue runs across New Orleans from west to east. It crosses through the Ninth Ward and then up and over the Industrial Canal into the Lower Ninth. On the south side of Claiborne, on higher ground toward the river, is a small district known as Holy Cross. It did not suffer as much as the hard-hit part of the Lower Ninth on the lake side of Claiborne. After the hurricane, there were policy-minded recommendations to “shrink the footprint” of the city—meaning to let nature reclaim the lowest-lying and most vulnerable parts of New Orleans, like the Lower Ninth. That proposal went nowhere. To those who had lost their homes once, the idea of the city taking their homes away a second time—this time permanently—seemed unimaginably callous.

Today, from the Claiborne Avenue Bridge, you can see dozens of new homes, many of them built by the actor Brad Pitt’s Make It Right organization: architect-designed, environmentally conscious, brightly painted creations sitting defiantly among neatly planted gardens. The city’s response to the storm was to rebuild the Lower Ninth and the neighborhoods that run along the lakeshore in a bigger, more idealized form—just as the response of New York to 9/11 was to erect an even more massive collection of office towers on the site of the old World Trade Center.

The way New Orleans handled public education after Katrina was very different. New Orleans had one of the worst-performing public-school systems in the country: the year before the storm,

sixty-two per cent of public-school students in the city were enrolled in a school rated F by the state of Louisiana. The government decided to start over. All of the city's public-school teachers were fired. Public education was changed—in the words of one city official—from “a school system” to “a system of schools.” In the most radical educational experiment in the country, students were allowed to apply anywhere they chose throughout the city, principals were given wide autonomy, and countless school buildings were renovated or rebuilt. The educational system, in the wake of a hurricane that battered its buildings, doubled down and finished the job itself.

“It has been tough,” said Rhonda Kalifey-Aluise, the C.E.O. of KIPP New Orleans Schools, part of a national educational network that has played a major role in the city's educational experiment. “We've had fourteen different moves of our schools from year to year, as renovations are happening. The kids have had to get on buses and ride all across town. I think that if we had thought too much about what we were doing we probably wouldn't have done it. There were lots of risks.”

Kalifey-Aluise and several of her colleagues then began to spell out just what she meant by “tough.” Two weeks before the storm, KIPP had opened its first school in New Orleans, KIPP Phillips College Prep—a middle school in Gentilly, with a hundred and twenty students. Katrina scattered everyone. Jonathan Bertsch, who was an administrator at that first school, recalls, “We started getting phone calls from our students—because, of course, it's a KIPP school, and they have our numbers—from Atlanta, Chicago, and a lot from Houston, from the Astrodome. So we said, ‘We should go to Houston and find our students.’ I drove there, and I remember I picked everybody up at the airport, and we got the last room that was open in the Astrodome Holiday Inn, which was the executive suite at the top. There were forty of us staying in that room.”

Bertsch and his colleagues spent a week walking through the shelters with signs: “Do you know anyone who went to KIPP Phillips?” Bertsch went on, “We found about twelve or fourteen of our original students, which out of a class of a hundred and twenty is pretty significant, because we're five hours away.” They teamed with people from KIPP's Houston schools, rounded up twenty-nine teachers (twenty-six of whom had been with the Teach for America program in New Orleans), and on October 3rd—just over a month after Katrina—opened New Orleans West College Prep, kindergarten through eighth grade.

“For our families, the typical experience was we would meet them in shelters like the Astrodome and they would maybe transition toward a church shelter or be doubled up with a family,” Bertsch said. “Then maybe they would get a hotel voucher, and then maybe find a permanent apartment. A lot of our families were dealing with just trying to get their lives straight. The amount of trust and belief that families had in us was overwhelming. Because I would talk to families, and I'd be looking at a map and say, ‘You need to walk your child two blocks this way and two blocks this way and the bus will come’—and they had never met me, they don't know who I am, and they'd never seen our school.” A year later, the KIPP organization moved back to New Orleans and started over, and, along with dozens of other groups, began the long task of rebuilding the city's public-school system from the ground up.

Ten years in, the results of the experiment have been mixed. Test scores have not risen anywhere near as much as had been hoped, and dozens of problems have had to be solved on the fly. How, in a system like this, do you prevent some schools from cherry-picking students—dumping the difficult cases on someone else? How do you create a single, simple application process? How do you move that many students from one end of the city to the other, every

morning? How do you respond to the communities that have lost the local schools they sent their children to for generations?

To critics, what happened to the city's schools is sometimes portrayed in ideological terms—as “disaster capitalism.” Or it is seen as a class victory: a group of (largely) white, well-educated teachers came down and took over a (largely) black school system. At root, however, is something more fundamental—the flip side of the position taken by those who want to rebuild the Lower Ninth. Those who fought against shrinking the city's footprint were motivated by the impulse to heal. The motivating force behind the school reforms was to fix. The first saw the storm as a trauma to be overcome. The second saw it as an opportunity to be exploited.

To the KIPP leaders, the sacrifices caused by the revolution were necessary. Given its past failures, what choice did the city's school system have but to try something new? As the KIPP officials were talking, they were sitting in a conference room at KIPP Central City Academy, a gorgeous, brand-new school in Central City—and a sharp contrast with the forbidding, battered building that KIPP occupied before the storm. The first crop of KIPP graduates are now moving on to college at a ninety-three-per-cent rate. Joining Bertsch and Kalifeh-Aluise around the table was one of those graduates, Tyreal Samuel, who had been with KIPP nearly every step of the way. She was headed for Grinnell College, in Iowa, in the fall, and the unspoken implication of her presence was obvious: someone in her shoes coming out of the old New Orleans school system could only have dreamed of Grinnell.

A few years after Katrina, the economists Emily Chamlee-Wright and Virgil Henry Storr interviewed dozens of evacuees living in Houston, and what they found is an exact version of this divide between the healers and the fixers. Those who preferred New Orleans to Houston gave as their reasons:

New Orleans is home: 69%.

Prefer New Orleans' unique culture: 49%.

Overall quality of life better in New Orleans: 35%.

Family/friendship networks in New Orleans: 27%.

Better transportation in New Orleans: 24%.

People are friendlier in New Orleans: 18%.

The members of this group put family and continuity first: they wanted their community back. “We sit down, we barbecue, we have our crawfish,” one of the returnees from Houston told Chamlee-Wright and Storr. “I went out there today and washed the pot out, we barbecued last week. It's just something we do. We get off work early, go spend \$30, \$40, \$50, \$60, buy a sack of crawfish, cook them, and sit outside and eat. Like I said, that's just New Orleans. That's what we couldn't do when we went to Houston.”

Those who preferred Houston saw things very differently:

Better schools in Houston: 35%.

Found a better job in Houston: 35%.

Overall quality of life in Houston: 33%.

Lower crime in Houston: 31%.

Better housing in Houston: 27%.

Better access to health care in Houston: 21%.

There is value in both positions. If places like Salt Lake City have great neighborhoods, it is in part because of culture and community. The attitudes of reformers in places like New Orleans sometimes bring to mind the absurdist adage of the Vietnam War: that a village needed to be destroyed in order to be saved. Nor can everyone move. Patrick Sharkey points out the sad fact about moving as a primary strategy: if too many poor African-Americans move into a middle-class neighborhood, then the middle class leaves—robbing the community of many of the things that the movers came in search of.

At the same time, however, Katrina reminds us that sometimes a clean break with the past has its advantages. The fact that you may have lived in a neighborhood for generations, or become attached to a set of long-standing educational traditions, does not mean that you should always return to that neighborhood if you are displaced, or reconstruct those traditions. The schools of New Orleans made a necessary and painful sacrifice: they extended the pain of Katrina in order to build a better future for the city's children. Those who chose to stay in Houston made the same hard choice. The calculations done in the Chetty-Hendren-Kline-Saez study concern the benefits of good neighborhoods for the children of the people who move. The child who moves from Central City to Salt Lake City at the age of five or six gets the benefit of all of his or her education in a better school, an adolescence largely free of violence and crime, and an early adulthood in a place with jobs and opportunities. The benefits are less obvious for the parents: they leave behind their networks and family ties and the pleasures of crawfish. In the past ten years, much has been said, rightly, about the resilience and the spirit of those who chose to rebuild the neighborhoods they had lost. It is time to appreciate as well the courage of those who, faced with the same disaster, decided to make a fresh start.

NY Times

[Stop Universities From Hoarding Money](#)

by Victor Fleischer

SAN DIEGO — WHO do you think received more cash from [Yale](#)'s endowment last year: Yale students, or the private equity fund managers hired to invest the university's money?

It's not even close.

Last year, Yale paid about \$480 million to private equity fund managers as compensation — about \$137 million in annual management fees, and another \$343 million in performance fees, also known as carried interest — to manage about \$8 billion, one-third of Yale's endowment.

In contrast, of the \$1 billion the endowment contributed to the university's operating budget, only \$170 million was earmarked for tuition assistance, fellowships and prizes. Private equity fund managers also received more than students at four other endowments I researched: [Harvard](#), the [University of Texas](#), Stanford and Princeton.

Endowments are exempt from corporate income tax because universities support the advancement and dissemination of knowledge. But instead of holding down tuition or expanding faculty research, endowments are hoarding money. Private foundations are required to spend at least 5 percent of assets each year. Similarly, we should require universities to spend at least 8 percent of their endowments each year.

University endowments have surged in recent years as markets recovered from the financial crisis. Yale's endowment now tops \$24 billion, up 50 percent from 2009.

Income inequality has left elite endowments heaving with cash. Following the tradition of Gilded Age philanthropists like Rockefeller, Carnegie and Vanderbilt, financiers are steering large charitable gifts to elite universities.

Kenneth C. Griffin, a hedge fund manager, gave Harvard \$150 million in 2014. In May of this year, Stephen A. Schwarzman, the chairman and co-founder of the private equity giant Blackstone, pledged \$150 million to Yale toward a new student center. John A. Paulson, another hedge fund manager, topped them both when he gave Harvard \$400 million in June.

While nobody has suggested that quid pro quos were involved in these cases, these gifts highlight the symbiotic relationship between university endowments and the world of hedge funds and private equity funds.

Investors compensate fund managers through an arrangement known as "2 and 20," referring to a 2 percent annual management fee and a 20 percent share of the investment profits, or carried interest.

The arrangement is doubly beneficial, from a tax perspective: Many institutional investors, including universities, are tax-exempt, and fund managers' carried interest is taxed at lower capital gains rates instead of ordinary income rates.

Universities won't disclose the amount of carried interest paid to fund managers. But one can estimate the amount by hand-collecting data from annual reports, financial statements and tax forms, as I did for the Yale figures above.

Despite the success of its endowment, in 2014 Yale charged its students \$291 million, net of scholarships, for tuition, room and board.

In 2012, Harvard spent about \$242 million from its endowment on tuition assistance; in 2014, it paid \$362 million in private-equity fees, and nearly \$1 billion in total investment management fees.

Smaller institutions aren't any better. The University of San Diego, where I teach, spent about \$2 million from the endowment on tuition assistance in 2012, compared with \$5 million in private-equity fees in 2014 and \$13 million in overall investment management fees.

Endowment managers argue that premium fees offer premium performance. It's true that, over the past 20 years, under the brilliant guidance of its chief investment officer, [David F. Swensen](#),

Yale's private-equity portfolio earned an astounding 36 percent per year. It's also true that Yale's financial aid policy is generous, and that Yale spends money from its endowment on things that benefit students indirectly, like buildings, faculty salaries and research. In the 2014 fiscal year, Yale's endowment provided \$830 million for expenses including funding professorships, subsidizing research and maintenance.

But the amount universities pay to private equity reveals the deeper problem: We've lost sight of the idea that students, not fund managers, should be the primary beneficiaries of a university's endowment. The private-equity folks get cash; students take out loans.

As part of the reauthorization of the Higher Education Act expected later this year, Congress should require universities with endowments in excess of \$100 million to spend at least 8 percent of the endowment each year. Universities could avoid this rule by shrinking assets to \$99 million, but only by spending the endowment on educational purposes, which is exactly the goal.

Eight percent is not as scary as it might sound. Remember that endowments benefit from new gifts as well as investment returns. The average endowment, small or large, has grown by 9.2 percent per year over the last 20 years, even after accounting for annual spending of about 4 percent. Last year, only 14 of the 447 university endowments with assets over \$100 million failed to net at least 8 percent growth.

Under my proposal, endowments would grow, only at a slower pace. They would shrink when markets crash, but recover, and then some, when the market rebounds.

Think about it this way. In 1990, Yale's endowment was worth about \$3 billion. If my suggested spending rule had been in place, it would be worth about \$10 billion today, instead of \$24 billion.

But under my proposal, the sky-high tuition increases would stop, and maybe even reverse themselves. Faculty members would benefit from greater research support. University libraries, museums, hospitals and laboratories would have better facilities. Donors would see the tangible benefits of philanthropy. Only fund managers would be worse off.

[Victor Fleischer](#) is a [professor](#) of law at the University of San Diego.

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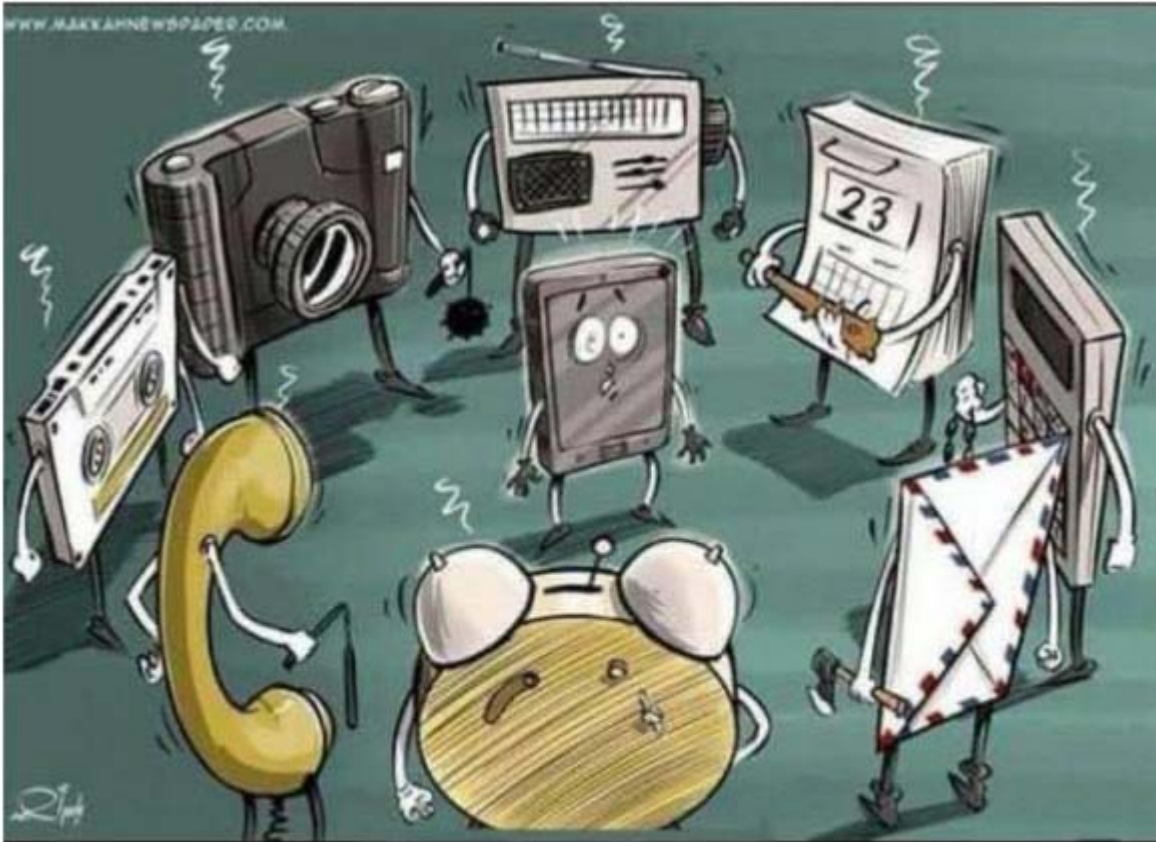
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