The residential boom runs the risk of squeezing hard-pressed cities financially. Commercial properties, which currently account for 40 percent of Vancouver's tax base, are taxed at a higher rate than residential properties, and require less in city services. As the balance tips toward condos, the burden on business grows, potentially driving commercial uses out of the city. Vancouver's planners have imposed what amounts to a moratorium on residential construction while they figure out how to attract more office projects.

No American city is close to Vancouver on the downtown-living front, Ehrenhalt writes, but there is a shift in the residential direction. Census figures show that downtown populations in major U.S. cities increased by about 10 percent in the 1990s after decades of decline. Since 2000, Philadelphia's central-city population has grown even as office space stagnated and the number of office and professional jobs declined. In New York City, where the local government's primary commitment after the September 11 attacks was to restore the lost commercial and office space, no new office buildings have been started on the World Trade Center site, while nearby commercial space is rapidly going condo. Even in St. Louis, the office vacancy rate is very low because so much office space has gone residential. If it can happen in St. Louis, it can probably happen anywhere. So it is likely that the "Vancouver question"—keeping a balance between commercial and residential uses—could well be a sleeper issue American cities never thought they would have to face.

ECONOMICS, LABOR & BUSINESS

Trading in Dreams

THE SOURCE: "Contemplating Delivery: Futures Trading and the Problem of Commodity Exchange in the United States, 1875–1905" by Jonathan Ira Levy, in ***American Historical Review***, April 2006.

Nothing epitomizes global capitalism more than the world's burgeoning futures markets, where trillions of dollars ride on everything from tomorrow's interest rates to next year's price for a bushel of wheat. This trade in the ephemeral seems dubious to many people even today, and at its birth more than a century ago it seemed downright scandalous, requiring the help of a Harvard philosopher and the U.S. Supreme Court to ensure its survival in the United States.

Trade in commodity futures has a long history; it involves nothing more complex than signing a contract today to deliver wheat or some other commodity at a certain price in the future. In the 1870s, however, traders in the United States and abroad began using a technique called "setting off" that allowed contracts to be bought and sold even though no goods actually changed hands, notes Jonathan Ira Levy, a graduate student in history at the University of Chicago. In 1888, for example, American farmers produced 415 million bushels of wheat, but U.S. traders handled futures contracts for perhaps 25,000 *trillion* bushels. By then, the action had expanded from the trading pits of organized markets such as the Chicago Board of Trade to informal "bucket shops," mostly in rural America, where ordinary folk could wager on movements in the big-city commodity markets.

Futures markets served an economic need. As the production and distribution of commodities such as corn and oil grew to national and international scale in the late 19th century, the need for new risk-management tools grew too. Futures allowed farmers and the many other players in the complex new marketplaces to protect themselves against price fluctuations and other risks. One midwestern grain elevator owner explained to a congressional committee in 1892 that he might have 100,000 bushels of wheat to sell on a day when buyers around the country demanded only 75,000. The ability to sell a futures contract for the 25,000 remaining bushels helped keep him afloat financially.

The title of those House hearings, "Fictitious Dealings in Agricultural Products," gives a sense of the public reaction to the new futures trading. It wasn't just that the exchanges encouraged speculation—indeed,

A Chicago bucket shop, where the masses could wager against prices telegraphed from commodities trading floors, when it was raided by police in 1906.

they couldn't survive without it—but that they trafficked in pure abstractions rather than actual goods. Agrarian populists in particular raged against the hocus-pocus of financial wizards who had the power to influence what prices midwestern farmers could get for their crops. But federal legislation that would have destroyed the pits was narrowly defeated in 1892. That left the matter in the hands of the courts.

Justice Oliver Wendell Holmes Jr. wrote the decisive opinion for the U.S. Supreme Court in 1905. Just a year before, his friend, the philosopher William James, had published a key essay in the evolution of pragmatist philosophical thought in which he argued that thoughts could be as "real" as things if they had consequences in the world. Earlier in his thinking, James had leaned on financial metaphors, noting that bank notes themselves have value chiefly because we believe they do. Without citing James, Holmes followed a similar line of thought in upholding organized futures markets: However incorporeal the contracts, the futures trade had positive practical consequences; "speculation of this kind by competent men is the self-adjustment of society to the probable." The casually operated bucket shops, however, were another matter, and the Court shut them down.

The American experience was atypical. As trade in commodities expanded during the late 19th century, futures markets sprang up in other countries, Levy notes, but most did not survive. Today, they are once again common in the developed world, and many newly capitalist countries make it a high priority to create them. But without adequate regulatory mechanisms and customs—or philosophers to justify their existence—most have expired.

ECONOMICS, LABOR & BUSINESS

Dying for Taxes

THE SOURCE: "Toying With Death and Taxes: Some Lessons From Down Under" by Joshua Gans and Andrew Leigh, in ***The Economists' Voice***, June 2006.

A curious thing happened in 1979 as Australia prepared to repeal its estate tax. During the final week the tax was in effect, the death rate declined. When the tax was eliminated, the rate rose.

The U.S. congressional calendar