

A post-hurricane action plan should focus on people

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By Glenn Hubbard

The tragedy following the onslaught of Hurricane Katrina and the ensuing floods and disorder have riveted America's attention. As federal assistance mounts to \$62bn, with some estimates of the final amount reaching much higher, it is both practical and responsible to ask what the federal government's role should be in such a crisis and how best to carry it out.

First, an overall economic perspective is in order. While Katrina's damage will inflict a short-term blow to US production and employment, its effect on the national economy over a year is likely to be modest. This is not because the damage is inconsequential but because gross domestic product and incomes rise as additional production, construction and employment follow from the rebuilding after a disaster.

So far, at least, long-term damage to energy supply seems unlikely. And favourable underlying economic growth trends make the need for a national "stimulus" package (ironic, given the substantial government spending of probably 1 per cent of GDP about to occur) questionable.

Business and consumer confidence is an important factor, which should tip in favour of recovery with a coherent economic approach to federal assistance. Such an approach must begin with principles and a process for action in order to inspire confidence. The case for federal relief is to use fiscal instruments to cushion the blow of a nasty regional shock.

Three economic principles should guide the relief effort. First, immediate needs should be attended to, with substantial federal assistance for the uninsured burden. Second, the necessary infrastructure for the Port of New Orleans and energy and transport sectors should proceed with dispatch and large-scale federal funding. Third, in the near term, redevelopment assistance should focus on people, not places; with an infrastructure and central city plan in place, redevelopment should be governed by market forces.

These guiding principles suggest a process beginning with the announcement of an immediate helping hand, followed by the presentation of a timetable for drainage and infrastructure repair. A group of national business leaders should be convened with federal support to conceptualise the re-vitalisation of New Orleans consistent with those principles.

Near-term assistance should focus on the people whose homes and livelihoods were most affected by Hurricane Katrina and subsequent flooding. A co-ordinator - a "red-tape tsar" - could be appointed to help individuals (as citizens, employees, home owners or business owners) obtain federal, state and local benefits to which they are already entitled. In addition, the federal government should define a reasonable interim period to provide

support to low-income households that have moved within or outside Louisiana and Mississippi.

That support should include, as a practical matter, vouchers for health insurance, housing and education. Personal re-employment accounts - already proposed by President George W. Bush - can provide support for retraining and relocation.

The president last week embraced this approach for re-employment and training, although vouchers remain a more efficient and effective form of assistance in healthcare, education and housing as well, as individuals have to relocate in the near term. And, as suggested by the president, small and medium-sized businesses could be assisted with subsidised loans - but that, too, should be for wherever they decide to relocate.

Place-based aid involves near-term and longer-term steps. In the near term, a red-tape tsar could speed up substantially the pace of reconstruction as Pete Wilson, California's then governor, did after the 1994 Northridge earthquake. The state focused on meeting quickly the economic costs of shattered infrastructure. Using bonuses for speedy performance and working closely with the private sector, highway repair was completed significantly ahead of schedule.

In the longer run, the federal government has a financial role to play in the rebuilding of highways, ports and transport infrastructure. It can also provide assistance to a redevelopment authority to suggest development by-products of revitalised port, energy and tourist sectors.

The rebuilding and strengthening of levees and other flood-control mechanisms in particular will require enormous expenditures. Part of that will be shouldered by the federal government. Such support should be a one-time transfer, not a permanent programme.

A redevelopment authority should also use private sector financing. Long-term redevelopment bonds can be attractive to private investors, while providing up-front funds for reconstruction. Sound redevelopment will add to the tax base to fund the repayment of the new debt.

These economic guidelines shape positive federal involvement. They also suggest limits to action for people and places.

First, while temporary assistance to low-income individuals affected by the tragedy is necessary and appropriate, longer-term assistance to these same individuals should be debated as part of a national policy discussion.

Second, there will be calls to "rebuild New Orleans" and other devastated areas as they were. Once responsible intervention to restore order and infrastructure has occurred, individual desires and market forces should continue to shape the design of cities, not a federally financed return to the status quo ante.

Details matter, and relationships among temporary crisis managers and federal and local authorities need to be worked out quickly. But the first step must be guiding principles. We owe those harmed by the tragedy and the taxpayers who share the financialburden nothing less.

The writer, dean of Columbia Business School, was chairman of the Council of Economic Advisers under President George W. Bush