

Democratic Forum on the Economy

“Addressing America’s Economic Challenges in the Wake of Hurricane Katrina”

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The tragedy of Hurricane Katrina has dramatically exposed a series of societal and governmental weaknesses. There can only be one silver lining. Namely, that all the loss of life, suffering and displacement has enabled the American people to see these weaknesses clearly and finally to support a series of long overdue policy responses.

One could focus today on many national priorities which we have been ignoring, from science to education to national savings, but I’d like to limit my comments to the direct policy consequences of Katrina. In particular, the continuing weakness of our emergency response infrastructure, and the fiscal irresponsibility which explains it.

This catastrophe on the Gulf Coast has revealed at least five severe weaknesses:

New Orleans did not have remotely adequate plans, systems or equipment for responding to such a large scale emergency. It is certain that most other population centers are just as unprepared. While some of those cities may not be at high risk of natural disasters like hurricanes, all are vulnerable to the more likely type of catastrophe, which is terrorism.

In an urban disaster, the poor and the infirm are at greatest risk. They do not have the means to remove themselves from stricken areas and thus will suffer the greatest casualties and loss of life. Our lack of preparedness is particularly unacceptable in light of such harsh outcomes.

The size of our National Guard and reserve forces is not adequate for the scale of intervention which such catastrophic events require. Draw downs of these forces for duty in Iraq have rendered them too small.

Despite many promises since the tragedy of September 11, 2001, federal funding for first responder, disaster relief has been woefully inadequate.

Large cities cannot continue to be primarily responsible for their own emergency response to mass catastrophe. The federal government must shoulder much more responsibility.

Let's first look in more detail at the systemic weaknesses which Katrina exposed. In New Orleans, the communications systems could not cope, the police and firefighters did not possess adequate equipment, there was little emergency transportation capability and there were few or no pre-designated and properly equipped emergency shelters to handle large numbers of evacuees. These are just four of the more obvious systemic failures.

It is inconceivable that these weaknesses are confined to New Orleans. Indeed, the chances that most population centers are any better prepared are very low. There is much evidence to suggest that they are not.

In reality, our largest population centers are all at risk of Katrina-scale catastrophes. They may not be vulnerable to hurricanes per se, nor rely on systems of levees, but they are vulnerable to acts of terrorism in this age where it is so widespread. Many conceivable acts of bio or nuclear terrorism could exact a far greater human and physical toll than Katrina did on the Gulf Coast. Moreover, we all know that further terrorism on our own soil is more likely a question of when, not if.

Having experienced the horror of September 11th, it is unconscionable that we have not made the necessary investments to prepare ourselves for the next such event. Katrina must serve as a call to action on this agenda.

Two years ago, the Council on Foreign Relations released a comprehensive report on emergency preparedness. Former Senator Warren Rudman chaired this effort and his task force included, among others, George Schultz, General John Vessey and William Webster. Their report concluded that America's approach on emergency responses was "drastically underfunded and dangerously unprepared." And, it outlined a series of basic steps which this country must take at the federal level. The executive director of this task force advised me this week that almost nothing has been done to take up or fund these steps.

Their recommendations included a mix of federal initiatives and grants to states and localities for the following purposes:

- improved **firefighting capabilities**, including equipment and training for interacting with hazardous materials, chemical incidents and providing emergency medical services
- expanded urban **search and rescue** training and equipment, including expansion of FEMA's national teams
- upgraded **hospital preparedness**, including protective equipment, decontamination facilities and related skilled personnel
- installation of fully **interoperable communications systems**, which would serve first responders and public alert capabilities
- an upgraded and **national 911 system** which would survive likely catastrophes and serve emergency personnel on the ground
- improved state and local **EMS equipment** and trauma resources

The costs of fully funding these recommendations was estimated at \$98 billion over 10 years, or less than \$10 billion annually. I will discuss the fiscal implications of Katrina in a

moment, but this is approximately one third of the annual revenue loss associated with repealing the estate tax.

It is also clear that our National Guard and reservist forces are too small to respond both to an urban catastrophe like Katrina and the burdens of a major international engagement like Iraq. In the event of mass urban terrorism, thousands of troops would be required instantaneously. Indeed, since September 11, 2001, our National Guard and reserve capabilities should have been expanded. Instead, they have been cut.

In 2003, 44% of 1,000 law enforcement agencies surveyed reported losing personnel to military call-ups. We are all familiar with incessant accounts of unexpected call-ups of reservists, like those 15 men from the Lima, Ohio area who recently perished in Iraq. It is obvious even to the layman that our military personnel are overstretched today.

We could have an entire day, or an entire week, devoted to discussion of proper personnel levels for U.S. armed forces in this highly unstable period of our history. But, one simple proposal seems timely for today's discussion. Namely, that we add at least 100,000-200,000 active duty Army and Special Forces troops to current levels.

This is the range which retired General Wayne Downing has recommended, and which also has been called for by the Center for American Progress. Legislation to effect such an increase also has been introduced by Senators Clinton and Lieberman.

In terms of cost, the Army estimates \$2 billion annually for every additional 10,000 troops. The overall annual cost of expanding the military resources to reach sufficiency on domestic emergency preparedness, therefore, would be \$20-40 billion annually. The mid-point figure approximates the revenue loss from full repeal of the estate tax.

This naturally leads to a discussion of fiscal priorities. Here, it is difficult to overstate the wrong headedness of our present national course.

Rather than fund the emergency preparedness and expanded military needs just cited, with their particular imports for the poor and infirm, President Bush is proposing an agenda of further, gargantuan tax cuts. The Administration's core idea, of course, is to make permanent the earlier cuts and add certain new ones. The appendix to my statement lists all of those cuts, totaling \$1.3 trillion over 10 years, which are being proposed.

In addition, the Administration already has spent \$200 billion on the war in Iraq. Without significant troop withdrawals, we would spend another \$385 billion there and in Afghanistan over the next 10 years.

I have served twice at reasonably high levels of government and thus should understand how Washington works better than the average American. But, I cannot understand how an advanced nation like ours can suffer the horrific events of September 11, 2001 and then decline to take the most basic steps of emergency preparedness required for responding to another, like

catastrophe. While, at the same time, showering tax cuts on people like me, who don't need them. The term "failure of leadership" is not strong enough.

Let me close by listing the policies which Katrina should impel our nation to take.

First, we must adopt and fully fund the full list of first responder preparations which I listed earlier.

Second, many of these preparations, in terms of equipment and training, should occur at the federal level. It is not practical to expect municipal or state governments to be primarily responsible for responding to mass catastrophes.

Third, we should properly expand our Army and Special Forces manpower levels by 100,000 - 200,000. Currently, there are insufficient military forces to intervene in the immediate aftermath of such events, while pursuing our current foreign involvements.

Fourth, we should drop any proposals for further tax cuts for upper income Americans. They should not be put on the back burner, as Secretary Snow just suggested, they should be dropped. In light of these first responder and military needs and our existing and projected deficits, America cannot afford them.

Fifth, we should roll back the cuts in the two top marginal rates which have occurred since 2000. This is not only necessary to finance investments in emergency preparedness, but also to prepare for the giant Medicare and social security deficits which our children will face.

Finally, one of America's bedrock principles is its generational promise, that each generation will make the investments and the sacrifices to ensure that its successor generation experiences a safer nation and a better standard of living. We followed this principle unwaveringly for over 200 years. But, today, by ignoring these necessary investments for the sake of a foolish fiscal policy, we are unforgivably violating it.

Charts

Federal Spending Figures

Iraq war and reconstruction appropriations to date	\$204.5 billion [2003-2005 Congressional Appropriations Data]
10 year estimate for continued Iraq/Afghanistan costs without troop pullout	\$384 billion [CBO]
Katrina spending for the next 2 years	\$200 billion [New York Times, 9/17/05]
Projected ten year deficit pre-Katrina	\$5.7 trillion [Concord Coalition]
FY 06 projected deficit post-Katrina	\$400 billion [Goldman Sachs, 9/9/05]
FY 07 projected deficit post-Katrina	\$400 billion [Goldman Sachs, 9/9/05]

DHS Spending Figures

New Spending Category	FY 04-FY 05 Spending
Port security grants	\$.704 billion
Homeland security grants	\$8.176 billion
TSA	\$9.983 billion
<u>Definably new categories of homeland security spending</u>	<u>\$18.863 billion</u>
<u>Total DHS Budget</u>	<u>\$74.341 billion</u>
<u>New categories as % of total</u>	<u>25.3%</u>

[DHS Budget]

Bush FY 06 Tax Proposals – Itemized

Item	Cost
<i>Extension of expiring provisions</i>	
General tax rates, child tax credit and brackets	\$736 billion
Estate and gift taxes	\$290 billion
Tax rates on dividends and capital gains	\$148 billion
Expensing for small businesses	\$19 billion
Education, retirement and other provisions	\$36 billion
<u>TOTAL</u>	<u>\$1.229 trillion</u>
<i>New provisions</i>	
Research and experimentation tax credit	\$78 billion
Deduction for high-deductible health insurance	\$33 billion
Refundable health insurance tax credit	\$12 billion
Expansion of tax-free savings accounts	\$2 billion
Tax credit for developers of affordable housing	\$17 billion
<u>TOTAL</u>	<u>\$142 billion</u>

[CBO]