

## Hurricane Katrina: The Challenges

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*Crises bring important turning points, precipitating changes, offering both opportunity and the danger of error. Will the coastal community be drawn together and made stronger overall by the reconstruction process? Will the natural beauty and resources of the Coast be preserved and enhanced by the emerging economy? Will the visions of the Mississippi Renewal Forum become reality? Will the Coast's elderly and low-income families be adequately provided for in the new coastal community? Only time will tell. Clearly some individuals and businesses will not or cannot recover fully from the effects of the storm. But the community as a whole will emerge from the crisis, and decisions being made now are determining the shape of the future. Some of the problems caused by Katrina are discussed below, as well as some of the opportunities opening up. The discussion is by no means all-inclusive, but can serve as a starting point.*

**Being slammed by a hurricane does not improve a state's economic situation – certainly not in the short-run.** During the period of rebuilding, however, there are massive capital inflows and a tremendous surge in income and employment. Property values may rise. Within a few months, per capita incomes on the Coast will be higher than before the storm due to these changes. Not all persons will be better off, however, and some persons will lose in the long-run. Some of the persons and businesses facing more severe obstacles are considered below.

It should also be noted that the state economic forecast presented above looks at trends in income, but not at changes in capital stock and wealth. For some vulnerable individuals and businesses especially, the loss of wealth and capital can have a dramatically negative effect, even when it does not have an immediate impact on income inflows. All these effects need to be considered when making decisions during the hurricane's aftermath.

**Who has been hurt most by the storm?** Over 230 persons in Mississippi are confirmed dead and many persons remain missing; clearly those who have lost their lives, and those who have lost

their loved ones, are the persons who have been hit hardest by the storm. Others bear physical and emotional scars. The loss of homes, businesses, infrastructure, and of treasured resources such as photographs, papers and books, unpublished research, historical homes, works of art, and more, inflict severe costs. These losses are both monetary and non-monetary; and both need to be considered, although we focus on monetary aspects here.

**Monetary losses are calculated based on the replacement value of the property or resources damaged or destroyed.** Individuals whose property or resources were under- or uninsured are among the big financial losers after a hurricane. When monetary loss is measured as a percentage of an individual's total wealth, the elderly and those with low- to middle-incomes are among those taking the hardest financial hits. These two groups will find it particularly hard to recover. It is often persons in these groups who are unable to return after a hurricane. It is estimated that 100,000 persons, or about 5% of the population, did not return to Dade County after Hurricane Andrew (this includes population loss due to the closing of the Homestead military base).



**Small business owners, too, have a hard row to hoe: even if they had insurance coverage, they may find it difficult to rebuild if they must weather months of very low business activity.** New building codes, which are already available in draft form, will also make it more costly to rebuild, adding to the financial burdens of even the fully-insured. Larger businesses are struggling to meet their contractual obligations with customers; although in the short-run they may be able to find the funds needed to rebuild, their bottom-lines may suffer for an extended period.

**Many workers lost their jobs as a result of the hurricane.** As of September 24<sup>th</sup>, 51,000 new jobless claims had been filed since Hurricane Katrina, compared to a total of about 55,000 claims paid during the twelve prior months.



Typically, most unemployed workers do not receive unemployment benefits, since they do not meet eligibility requirements. In Mississippi in 2001, for example, only 36% of unemployed workers received benefits.<sup>1</sup> However, if a worker who is unemployed due to Katrina is not eligible for regular unemployment benefits, he or she may receive unemployment benefits through FEMA, which has more flexible criteria in place for disaster victims.<sup>2</sup>

**One side-effect of the increased unemployment payments since Katrina** is that the drawdown from Mississippi's unemployment trust fund this year may adversely impact funding of the Mississippi Workforce Training Enhancement Fund, which only receives \$20 million per year if the trust fund remains above a \$500 million threshold. Other possible cutbacks in state programs would also affect Mississippi families.

**Will the loss of homes and businesses due to Katrina mean that the poverty rate on the Coast will rise?** Most probably it will, but the increase will be an underestimate of the

increased financial hardship for many families, due to shortcomings in the way the poverty threshold is determined.

For example, consider an elderly retiree living in a home that is fully paid for, whose sole income is a monthly social security check. Say her home is totally destroyed, and she is forced to live in an apartment where she now pays rent. According to Census standards, there is no impact on her income, nor does her poverty status change. This is because the poverty line is set by the price of food alone – a family food budget is multiplied by three to estimate the family's poverty level.<sup>3</sup>

**Families who were poor before the hurricane hit and who have lost their homes are less able to overcome the obstacles they face.** The poverty rate for Mississippi, according to the 2000 Census, was 20% for individuals and 16% for families. These rates were lower for the coastal counties, closer to the U.S. rate of 8.6%: 11.2% of Hancock County families had incomes below the poverty line; 11.6% of families in Harrison County; and 10.5% of families in Jackson County. In Harrison and Jackson Counties, most of these families (about 60%) were headed by women with low annual earnings (no male present), but in Hancock County only 43% of poor household were female-headed. Hurricane-related aid inflows, if directed to families with very low incomes, could help them to obtain housing, employment and hard-to-find quality child care.



**Government at different levels will clearly be feeling a financial squeeze as it tries to respond to the problems caused by Katrina.** The state's total bonded indebtedness has tripled in the past ten years; if aid from the federal government is insufficient, the state will be forced to further increase its debt level, which means that more state revenue for several years will be devoted to interest payments and debt repayment. Fewer state funds would then be

available for expenditures in areas such as education, economic development, or justice & corrections. Local governments are facing the loss of much of their property tax revenue, which is their major revenue source. Although in general tax bases will be stronger than ever after reconstruction is complete, there is a short-term problem. Loans are being provided, but increased debt at the local level imposes a greater burden than at the state or federal levels. This problem remains unresolved as this article is written.

**It is not possible to state with accuracy where the billions of dollars flowing to the Gulf Coast will go.** Inflows depend on the interest of investors, the policy provisions of insurance companies, federal and state legislation guiding government agencies, and the guidelines in place in relief agencies and other nonprofit institutions. And, importantly, the willingness and ability of Coast residents to take out loans or spend their savings to rebuild.

**The picture is mixed when it is asked which firms and which workers have benefited from inflows so far.** Many contractors and workers are from out-of-state, and many residents have found it difficult to get subcontracts or employment through FEMA. There have been complaints that even those firms that succeed in landing a subcontract may experience delays lasting weeks before being given any work to do (*Clarion-Ledger* 11/13/05 p. 1A). Several advocacy groups are reporting employment-related problems among immigrants working for contractors on the coast.<sup>4</sup> Several employment-related laws have been suspended for firms receiving FEMA contracts, including affirmative action policies.

## The Opportunities Are Grand

**In the short-run, expect the businesses that provide goods and services used in rebuilding the Coast to do well.** The sectors of construction, transportation, retail and wholesale trade



in autos, building materials and consumer goods, and repair and social services will be among those experiencing a strong increase in demand. Contractors and subcontractors have already won multi-million dollar contracts in debris removal, construction and other areas, as discussed earlier. The real estate market offers opportunities and challenges for astute investors. It is an exciting, if difficult, time.

**In the long-run, future businesses and future residents will be the beneficiaries of the investments made and the work done during reconstruction.** It can be expected that in general Mississippi's coastal communities will be more prosperous than ever in the future; and that cities such as Gulfport, Biloxi, Ocean Springs and Pascagoula will see hugely increased tax bases and a thriving population. The extent to which the entire community gains from the rebuilding of the Coast, however, depends on the decisions made

over the coming year. How much aid will be provided, and to whom? Which businesses will return, and who will be the future residents of the Coast? What say will residents of the Coast have regarding the infrastructure of their communities?<sup>5</sup> Answers to such questions are being decided now. What those decisions will be depends greatly on who makes them. The more participatory and well-coordinated the decision-making process, the more uni-



fied and stronger the ensuing reconstruction efforts are likely to be.

### Notes

1. Mississippi's average unemployment benefit is \$169, and the maximum benefit \$210, which rank lowest in the nation, according to an October report of the National Employment Law Project (NELP).
2. [www.fema.gov](http://www.fema.gov). Information on other benefits available for hurricane survivors provided in a guide prepared by the Alliance for Healthy Homes at the following site: [www.afhh.org](http://www.afhh.org).
3. The assumption is that the cost of other necessities is twice that of food – an estimate that no longer holds, according to the National Research Council, which has recommended another way of measuring

poverty (their alternative measure has the net effect of increasing the poverty rate). However, the definition has yet to be changed. See the June 1999 *Review* for more information.

4. "Immigrants often unpaid for Katrina work", Associated Press, 11/5/05.
5. "MDOT: Add Coast Bridge to tales of waste", *Clarion-Ledger* editorial 11/9/05. (MDOT=Mississippi Department of Transportation). Another concern is the release of toxic chemicals to the environment. See, for example, the *Sun Herald* 11/10/05 "Air Quality Monitors Raise Flags" and the statement on the expansion of the DuPont plant near Pass Christian presented at a hearing before the Department of Environmental Quality, 11/8/05, by Reilly Morse and Jerry Landrum using information compiled by Paul Stewart.