

## Leadership Failure Continues, White House Stiffs Gulf States

by Richard Freeman and Mary Jane Freeman

The Bush-Cheney Administration rammed bill S. 1858 through Congress in early October, providing a mere \$1 billion in Community Disaster Loans to local governments in the Gulf states region—ravaged and, in many cases, bankrupted by Hurricane Katrina, and needing tens of billions of dollars in aid. The Bush team insisted that this law contain a stipulation *prohibiting the Federal government from ever forgiving these loans, if the communities were unable to pay them back*. The White House's insistence violated 30 years of practice. A loan forgiveness clause—which permits the Federal government to turn the disaster loan into a free grant if the local government is too cash-strapped to pay it back—had been standard on all disaster loans. Since 1974, some \$227 billion in Community Disaster Loans has been forgiven, including loans to New York City after Sept. 11, 2001.

The White House's meanness in inserting this anti-loan-forgiveness clause is emblematic of an overall policy pattern of stiffing the U.S. Gulf states region since the devastating storms. Acting for City of London-Wall Street synarchist bankers, the Bush-Cheney Administration has stalled or drastically slashed disaster relief and most Federal emergency funding programs, to New Orleans, southern Louisiana, and southern Mississippi, whose economies are destroyed and many of whose governments are now bankrupt. The austerity-maddened monetarists in the Republican Party—represented by the Executive's Office of Management and Budget director Joshua Bolton, and in Congress by the so-called conservative Republican Study Committee led by Rep. Mike Pence (R-Ind.)—are taking a Gulf region that is crushed, and cutting back aid to it, step by step. Denied so far, have been the means to rebuild infrastructure, to pay for health services and rebuild hospitals, to open schools and pay for teachers and staff, to

rehabilitate 80,000 closed businesses, and to build replacement dwellings for 250,000-300,000 destroyed homes. The fascist-monetarist wing of the Republicans has told the Katrina victims to exist on self-help tax schemes, without spending any real money. This is a policy of genocide and destruction.

A single snapshot: Soon after Katrina struck on Aug. 29, the Congress authorized FEMA to spend \$62.3 billion on disaster relief and on the start of reconstruction programs. Eight weeks later, FEMA has dispensed only \$22.8 billion, 36% of the already vastly insufficient total.

It must be emphasized that the state of Louisiana has just lost revenue of between \$1.5 and \$2.5 billion (when lost Federal matching funds are figured in). The governments of New Orleans, of St. Bernard Parish, of Plaquemines Parish have almost no revenue streams. As Doug Albrecht, chief economist of the Louisiana Legislative Fiscal Office told *EIR* Oct. 27, "Some sections of these areas are just ghost towns." During September, 234,000 new Louisiana workers became unemployed, doubling the official unemployment rate to 11.5%, and swelling the real unemployment rate to 20%. Four out of every ten businesses are damaged or shut down.

But the monetarists have raised their criminal hypocrisy to a new level: under Acting House Majority leader Roy Blunt (R-Mo.), they are now demanding that for every dollar spent on Katrina programs, there be an equivalent cut in the U.S. budget. The programs targeted for budget cuts are primarily those that help the poor; yet the people needing assistance in the Gulf states are among the poorest in the country. By linking Katrina-associated assistance to cuts in the budget, it is intended to force all of Congress into a straitjacket: They either relent and put a limit on Katrina-related spending, or

they slash vitally needed programs. In reality, the spending for Katrina reconstruction should be above whatever had been budgeted for the regular budget.

### Monetarist Fascism vs the Roosevelt Reflex

This fascist-monetarist crew has acted to prevent the Federal government from carrying out the role under President Franklin Roosevelt in the 1930s economic crisis: to intervene to give policy direction and robust, Hamiltonian credits directed to infrastructure and production. In the region affected by Katrina and Rita, localities can't pull themselves up by their own bootstraps. To tell them, as the White House insists, to "come up with their own plans and rely on their own resources," is to offer them a death certificate.

In recognition of this, in mid-September, Sen. Mary Landrieu (D-La.), with Sen. David Vitter (R-La.), the Louisiana U.S. Congressional delegation, and state and local officials, drafted S. 1765, the "Hurricane Katrina Disaster Relief and Economic Recovery Act." The bill's features that have drawn monetarists' wrath, are: \$50 billion in grants for storm-ravaged communities; an emphasis on elementary and secondary school construction; financial aid to schools taking in displaced pupils, at \$4,000 per student; new hospital construction; and broad aid to the rebuilding of housing. S. 1765 also includes \$13 billion for the Louisiana Department of Transportation and Development; \$4-6 billion to the U.S. Army Corps of Engineers for the rebuilding and upgrading of New Orleans' levee and flood-control system to withstand a Category 5 hurricane; \$14 billion for rerouting water-courses and rebuilding wetlands along the coast, a grand project to defend the land from hurricane storm surges; and several tens of millions of dollars to revitalize the devastated seafood and sugar cane industries. Total associated costs are \$250 billion.

This relatively top-down approach is clearly a step in the direction of the FDR tradition, and deserves to be adopted. Further, it opens up the question of method: that the Federal government should play a positive role in the direction of the economy, in opposition to the policy that has strangled the economy for the past 35 years—globalization, deregulation, and the degradation of America from the world's leading producer society into a parasitical consumer society.

### Lazard's Counterattack

Landrieu and Vitter introduced their legislation on Sept. 22; at about the same time, Senators Edward Kennedy (D-Mass.), and Judd Gregg (R-N.H.) proposed the creation of a Gulf Coast Revitalization Authority, modelled upon Roosevelt's Tennessee Valley Authority. Other bills with similar concepts began to surface.

The financier oligarchs reacted with an utter rage-fit. On Sept. 27, the *Washington Post*, which is controlled by the same Synarchist-fascist Lazard Freres investment bank that financed Hitler, published a nasty lead editorial, entitled,

TABLE 1  
**Louisiana Budget, Fiscal Year 2005-06**

(Appropriated Funds, \$ Billions)

| State Funds                    |                |
|--------------------------------|----------------|
| State General Fund             | \$ 7.26        |
| Fees & Self-Generated Revenues | \$ 1.40        |
| Statutory Dedications          | \$ 3.36        |
| <b>Total State Funds</b>       | <b>\$12.02</b> |
| <b>Federal Funds</b>           | <b>\$ 6.71</b> |
| <b>Total State and Federal</b> | <b>\$18.73</b> |

Source: Louisiana House of Representatives.

"Louisiana's Looters." It stated, "Like looters who seize six televisions when their homes have room for only two, the Louisiana legislators are out to grab more federal cash than they could possibly spend usefully." The legislators' alleged crimes?: "Rather than grappling with the lessons of Katrina, Louisiana's representatives are demanding an astonishing \$40 billion worth of Corps of Engineers projects in their state." The bankers want no reconstruction, and effectively, no city of New Orleans.

During the first weeks after Hurricane Katrina ravaged the U.S. Gulf Coast, the American population responded in support of reconstructing the devastated region, and President Bush stated Sept. 15, that he would launch "one of the greatest reconstruction efforts the world has ever seen." History will note this as one of Bush's bigger lies. Since early September, Bush had been involved in cutting back funding or adding fascist twists to programs. Now, in coordination with the complement of monetarist fascists in the Congress, he shifted more firmly in that direction.

On Sept. 28, one day after the *Washington Post's* signal editorial, a Bush Cabinet officer, U.S. Housing and Urban Development Secretary Alphonso Jackson, declared: "Whether we will like it or not, New Orleans is not going to be 500,000 people [New Orleans' approximate pre-Katrina population] for a long time. New Orleans is not going to be as black as it was for a long time, if ever again." According to the figures that Jackson presented, New Orleans would be shrunk to a city of 375,000, a drop in population of 25%, and more than 125,000 African-Americans who resided in New Orleans before Katrina, would no longer reside there. This is a policy of mass depopulation and de-urbanization.

### The Stiffing Bills of Indictment

The Bush Administration intended by its insertion of the *anti-loan forgiveness clause* into disaster loans, to keep the volume of such loans way down, by discouraging local governments from borrowing unless they knew for sure they could pay it back. In their financially strapped straits, localities had no way of knowing that they could pay.

There are myriad other examples of equal or greater importance. We present these examples as if they are bills of indictment. In fact, when a government willfully undermines or withholds the level of funding and physical infrastructure needed to solve a crisis that is yet worsening and deepening, and upon which the survival of a population depends, that really does constitute indictable criminal behavior. These hideous practices and the fascist-monetarist free-trade ideology that underpins them, must be stopped. A shift to those policies in the Rooseveltian direction, that are now under discussion, must be taken up.

Keep in the forefront of your mind, the actual conditions which exist here. According to Doug Albrecht, chief economist of the Louisiana Legislative Fiscal Office, the state of Louisiana has a budget for fiscal year 2005-06 (which started July 1 of 2005), that is projected to have \$18.729 billion in revenues, and \$18.729 billion in expenditures. Table 1 shows the source of its revenues. The State and General Fund revenues come from things such as sales tax, income tax, and so on. Albrecht told *EIR* Oct. 27, that he has projected that the State and General Fund will lose \$1 billion in revenues because of the effects of Katrina. The rest of the revenue stream, from other parts of the state budget, may also fall.

But \$6.7 billion of Louisiana's \$18.7 billion revenue streams come from the Federal government. Most of this comes in the form of the Federal government matching state expenditures for Medicaid, usually at a 3:1 ratio. For every \$1 that the state is low in its own Medicaid revenues, it loses \$3 in Federal matching revenues, creating a further revenue shortfall.

As for the City of New Orleans, prior to Katrina, it was a city of approximately 485,000 people. Now, only about 70,000 people sleep in the city each night, less than 15% of the pre-Katrina level. New Orleans would normally take in \$39 million in revenues per month, usually in the form of taxes. It is now taking in between \$2 and \$5 million per month, a pittance. Three weeks ago, with this constraint, Mayor Ray Nagin fired 3,000 city workers, nearly half the city's workforce. Schools and hospitals don't function, as shown below.

Thus, when Federal financial funding is withheld, denied, or cut, this is not a matter of discretionary money; this means the city government will not survive.

We will look at some of the stiffing that is taking place, and its effects in two crucial areas: health and hospitals, and education. But first, an overview of other atrocities in the post-Katrina policy.

- **Suspension of Davis-Bacon Act.** On Sept. 6, the Bush Administration suspended a provision of the Davis-Bacon Act, which guarantees construction workers that they are paid prevailing wage in the region, when they are working on a Federal government contract. (See article, p. 26.)

- **No bid contracts.** In the construction work contracts, FEMA let out several initial contracts, including four valued

at greater than \$100 million each, on a no-bid basis. Vice President Dick Cheney's company, Halliburton, which is notorious for overcharging on its no-bid contracts in Kuwait and Iraq, also was awarded some of the no-bid work in Katrina reconstruction. Though not surprising, this is like admitting a pig to the trough.

- **Small Business Administration Dispenses Loans to Fewer Than 2% of Applicants.** Shortly after Hurricane Katrina struck Aug. 29, the SBA put implemented a disaster loan program to help victims of Katrina, and subsequently Hurricane Rita. The SBA can extend a Business Physical Disaster Loan to a business to repair or replace its machinery and equipment, supplies, real estate, and so on. It can also make loans to homeowners for repairs.

But, rather than acting in an expedited manner, the SBA has extended a bare minimum amount of money. According to an Oct. 21 conference call in which *EIR* participated, with Herbert Mitchell, head of the SBA's Office of Disaster Assistance, eight weeks after Katrina, the SBA had received applications for 142,177 disaster loans, but approved only 2,295, a minuscule 1.6% of the applications. This must be assessed against the background, reported by Louisiana Governor Kathleen Blanco, that out of a total of 198,000 Louisiana businesses, 81,000—41% of the total—have been shut down or displaced, a catastrophe.

U.S. Senator Olympia Snowe (R-Me.), chair of the Senate Committee on Small Business and Entrepreneurship, released a blistering statement Oct. 25, stating, "The SBA's continued failure to process and approve disaster loans in a timely manner for the victims of Hurricane Katrina and Rita is indefensible and inexcusable." She vowed that she will call an over-sight hearing.

- **Rejection of Requests for Federal Loan Guarantees to Avoid Bankruptcy.** By mid-September, Moody's Investor Service had placed on its "watch list," 51 local government issuers in Louisiana and Mississippi, covering \$9.46 billion in rated debt. The next step for Moody's would be to downgrade their bonds. Sen. Mary Landrieu has called for provisions to prevent local Gulf governments from declaring bankruptcy, by having the U.S. government put its full faith and credit behind the bonds. It is believed that Senator Trent Lott (R-Miss.) has made a similar request. Treasury Secretary Snow, who has oversight on this matter, has repeated President Bush's Oct. 4 statement ad nauseam that he will help the Gulf Coast in a "fiscally responsible way," but he has offered no concrete plan, and done nothing.

## General Welfare Be Damned

Hospitals and public health department units in Louisiana remain closed with no Federal monies to get rebuilding started. Citizens who have lost everything are rejected for Medicaid benefits because the White House has blocked bipartisan efforts to extend emergency aid. Hundreds of thou-

sands of public school children's education, schools, and teachers still await Federal help.

We take a deeper look.

Our most vulnerable citizens rely on the public hospital system for medical care. But that system has been severely shaken by Katrina. "We're out of money, roughly after Thanksgiving. We are running out of time." So said Donald Smithburg, chief executive of the Louisiana State University Health Care Services Division on Oct. 27.

Indeed, two of its nine hospitals across the state, Charity and University Hospitals, are all but destroyed. Charity, built during the 1930s as part of President Franklin D. Roosevelt's recovery projects, will not be reopened. "Katrina sounded the death knell" for Charity, one Louisiana hospital spokesman said. These two public hospitals provide one-third to one-half of all revenues for the statewide public hospital system. "As the two hospitals in New Orleans go, . . . without some sort of a Congressional appropriation . . . the problems with New Orleans are going to have a domino effect throughout the system. This will impact precarious situations that exist at many of these hospitals, and only make it worse," a Louisiana State University spokesman for the public hospitals told *EIR*.

Many of the 3,000-plus health care employees of these hospitals who had to evacuate will join the ranks of the unemployed, "If Federal money cannot be found to somehow keep some, if not all, of these people on the payroll until we can ramp up and resume operations, we will have to begin furloughing employees" by November, he reported.

Asked if any of the other public hospitals were affected, he replied: "Virtually all of [them] were impacted in some way. . . . The hospital here in Baton Rouge has seen their patient load expand by a third since the storms . . . [as have our] hospitals in Lafayette, and Alexandria. So all of the hospitals have been impacted in one way or another." These hospitals "serve the indigent and the working population that don't have medical insurance. Our medical schools and nursing schools, use these hospitals as training hospitals." It is estimated that a total of \$2 billion is needed to build a new public hospital in New Orleans and one in Baton Rouge, as well as to upgrade the remaining seven hospitals across the state to meet the added patient load.

Revenues for public hospitals are dependent on Medicaid, Medicare, and uncompensated care payments. As of fiscal year 2003-04, total revenue sources for this system were: Medicaid approximately 30%; Medicare, 12%; Commercial 5%; and Uninsured care (or uncompensated care) 53%.

A critical adjunct to the public hospitals, schools, and local government is the public health department located in every parish (county) in Louisiana. All these units in the state were closed during hurricanes. As of late October, eight public health units remain closed due to damage.

These units are funded by parish revenues. At this point the Bush Administration and Congress approved \$1 billion

in disaster loans to local governments. But each parish where these units are located has had extensive damage, and so it is uncertain when, if, or how much will be allocated to public health units. It will take more than three years to rebuild these areas and facilities, and before the revenue base is reestablished.

Of the 21 private hospitals in New Orleans, 11 are closed, 3 are operating an emergency department with limited inpatient beds only, and 7 are fully functional.

### **Public Schools Threatened with Privatization**

Six weeks after Bush's Secretary of Education Margaret Spellings made her photo-op appearance in New Orleans, and Louisiana's Department of Public Schools made a \$2.6 million emergency funds request to the U.S. Department of Education, they are still waiting. The failure to provide these minimal funds has provoked an ugly and unnecessary fight over keeping or abandoning public school system in favor of replacing them with charter schools, and even threats to remove the New Orleans superintendent of schools for not acquiescing in this scheme.

Eight school districts were severely impacted by the hurricanes, and schools in four of these could fail to reopen this school year. These four districts affect 187,000 public and 61,000 non-public school students, and employ 17,000 people from 236 schools, of which 7,865 are teachers. These four districts stand to lose \$450 million in local revenues and another \$400 million in special funds. This loss is compounded by the fact that a school receives state funds on a per pupil basis, but these schools have no students. The damaged schools will not survive without Federal monies to help them rebuild.

The \$2.6 million request by the Louisiana Department of Education (LaDOE) on Sept. 14 to Spellings, fails to include rebuilding costs. It seeks \$1.2 million in employee compensation costs for the eight severely hit districts, and \$1.4 million to cover services and expenses for all other state school districts which have taken in more than 240,000 students. At the time of the request LaDOE stated "Several school systems are only able to make one more payroll. After that, their employees will be on unemployment or need to find other work." The request also stated some districts may be forced into "financial default," if aid is not provided.

Faced with an untenable situation—potential default, no revenues coming in, and no Federal aid—state Superintendent of Education Cecil Picard, New Orleans Mayor Ray Nagin, and others turned to a favorite neo-conservative scheme to privatize public schools: charter schools. Using private funds to redesign and redefine schools, and then to monopolize the public funding stream later, with no accountability, charter schools are nothing but a scheme to privatize the school system. Dismantling the public school system is not a choice these Louisianans should be forced to make.