

# **ECONOMIC DEVELOPMENT FOR THE STATE AND ITS REGIONS IN THE WAKE OF THE STORMS**

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## **Background**

The hurricanes wrought serious short-term damage upon the Louisiana economy, disrupting the activities of firms, preventing employees from continuing at their jobs, disabling key transportation and utility systems, interrupting the training of the future workforce, and creating the need to repair and rebuild private properties and public infrastructure on an unprecedented scale.

Nearly 19,000 businesses in Louisiana were incapacitated by major damage, with 81,000 firms impacted overall. Estimates in the spring of 2006 were of 240,000 workers unemployed as a result of the disaster. And, while in a normal year 15,000 homes are built in the state, nearly 250,000 now need to be replaced.<sup>1</sup>

It was a rare firm in the storm-damaged areas, whether urban, suburban, or rural, that did not lose some or all of the elements of doing business, including its facility, inventory, customers, suppliers, employees, transportation and communication networks, insurance, and access to capital. Their capacity to restart operations depended on the extent of their damage, their internal or corporate resources, the rate of return of their workforce and customers, and many other factors. Small businesses were especially vulnerable, as shown in this newspaper account of New Orleans marking the passage of a year:

- Even before the storm, New Orleans's economic ship was powered not by a couple of whales, but by a school of small fish. The city estimates that 95 percent of the 22,000 businesses here before Hurricane Katrina employed fewer than 100 workers (fewer than 25, in most cases). These included not just shops, but also the artists and manufacturers and wholesalers that supplied them, and the accountants and lawyers and cleaning companies that served them.
- About 60 percent of the businesses within the city limits have probably not reopened, according to a recent study by Louisiana State University, which tried to call about 8,500 of the 10,000 businesses registered with the state. At about 5,000 of the businesses, the phone had been disconnected or was not answered after five calls.<sup>2</sup>

Beyond those daunting challenges, the storms have made evident the long-standing shortcomings in the state's economy. Simultaneously, Louisiana has an unprecedented opportunity and momentum to make bigger changes, invest in more innovative strategies, and plan for the future more systematically and equitably.

There is a common perception of economic development as a process of trying to lure new enterprises to a community, region or state, or of subsidizing the costs of expansion for existing firms. Those are the tactics and public expenditures with the highest visibility, whether they are effective or not.

Louisiana, like most states, has done its share of "chasing smokestacks" or lowering the cost of doing business through tax breaks, tax credits, redevelopment projects, and job training programs. However, prior to 2005, the returns on these efforts had not been enough to move the state's economy into one with high wages or rates of growth compared to most other states. The opportunity presented by the storm-driven disruption is to think and act more strategically in order to nurture key clusters of industries, and strengthen the capabilities of the workforce to succeed in newer, more knowledge-based jobs. The related, equally important challenge is to guide this new economic activity in a way that makes it more accessible to all communities and all Louisianans.

Many of the normal proportions and expectations about how the economy works will not apply for the next several years, and these unusual conditions can be the seedbed for experimentation and entrepreneurship. The housing and construction sector, for example, is normally a predictable 10 or 12 percent of the overall economy, conducted for the most part in a very tradition-bound way. But for the next decade or more the building sector will be much, much larger. This will be not only a massive increase in spending and activity, but also a chance to develop new ways of doing business, in everything from training workers and designing more energy efficient buildings to fabricating materials and putting together structures.

Louisiana could not only be rebuilt, but also in the process become a source for innovations and expertise of national and international significance. Similar notions of linking the rebuilding agenda to becoming a leader in technology and business innovations have been

forecast for the growing field of environmental remediation, so crucial to the state's future. Hopeful long-term scenarios can be envisioned for other sectors as well, in stark contrast to the messes that people and firms are confronted with at the present time. The positive, enterprising long-term outcomes will not come about by chance, however: there are policy choices that can increase their likelihood.

### **Economic Challenges Predated the Storms**

Income, more than unemployment, has traditionally been the foremost economic challenge for the state's population. The Louisiana economy before the storms had been relatively better at generating a decent number of overall jobs than at creating adequate numbers of positions with good wages, good benefits, or stable employment. Many jobs in tourism and hospitality, construction, or agriculture are part-time or seasonal, leaving many families with employed heads of households below the poverty line or a paycheck away from financial disaster. Even natural resource sectors such as oil and gas, with higher than average wages, are highly cyclical, with the accompanying instability and risk, especially for workers and small firms.

The state lagged badly in the number of graduates of secondary and higher education and more so in their level of math and science preparation. The high school graduation in 2004 was at 84 percent, unchanged from a decade before and well below the "top states" standard of 94 percent. The number of ninth- to twelfth-graders taking at least one upper-level science class stood at 24 percent, compared to 41 percent in the top states.<sup>3</sup> The community college sector was relatively late to develop and small in enrollment, and compared to many other states, Louisiana had a much smaller proportion of its firms or employment in the "knowledge-based" sectors that are providing the engine of growth for most economically healthy regions of the country.

Prior to the storms, the smaller cities and rural areas of south Louisiana had been facing a mixed economic forecast, with many parts of the oil and gas and shipping industries continuing to grow in revenue and employment, but many other sectors, such as shrimping and aspects of shipbuilding, battling foreign competition or otherwise not generating enough new employment to keep the majority of new workers at home. The area around Lafayette already had the strongest rates of job growth, compared to the Lake Charles or

Houma areas, and then suffered relatively less hurricane damage than its southeastern and southwestern neighbors. Throughout the southern part of the state, even seemingly traditional areas and businesses, however, have started to seek new markets and technologies, whether that is supplying the emerging bio-fuel demand from sugarcane and other crops, expanding new styles of ecotourism in the bayous, or developing local expertise in environmental remediation and restoration.

The economy prior to the storm also featured wide disparities in access to good jobs and to opportunity more generally. New Orleans had some of the highest proportions of neighborhoods of concentrated poverty and racial segregation of any metropolitan region in the country, with large proportions of adults unconnected to the workforce and a public education system that was not giving most of its low-income students the means to succeed. The metropolitan areas had sprawled extensively, with most job growth and other new investment occurring in the low-density, auto-dependent suburbs amid striking differences in income and racial composition between central cities and outlying areas.

These and other challenges to economic self-sufficiency and asset development for low-income families had been framed by the Governor's Summit on Solutions to Poverty, held in December 2004, which included detailed assessments and proposals for action by stakeholders from each region of the state.<sup>4</sup> The intended legislative agenda was derailed by the hurricanes, of course, but the core ideas, focused on making work pay, investing in education, and encouraging entrepreneurship, remain useful for the long term.

### **Progress: Delays and Frustration but also Resilience**

The one-year anniversary led to numerous accounts of the fitful progress of recovery efforts related to economic activity, characterized by rapidly changing data that can be hard to place in proper context, and expressions of both resilience and intense frustration. As a recent opinion article in *The Advocate* opined regarding how much had actually been spent, "There are facts, and then there are federal facts."<sup>5</sup> One of those federal facts is that "the Small Business Administration has approved 92,971 disaster loans for over \$6.5 billion to businesses affected by Hurricanes Katrina and Rita, but many business owners said getting approved was no easy feat."<sup>6</sup> The varied focal points for help are reflected in the Louisiana Recovery Authority (LRA)'s intentions for the federal Community Development

Block Grant (CDBG), including \$2.5 billion for metropolitan infrastructure repairs that are vital to the economy. Beyond the infrastructure spending, and the support for housing, much of it for the workforce, both of which are essential to reviving the economy, approximately 4percent of the short-term aid will go directly for aid to businesses. The package of CDBG economic development programs recommended by the governor and LRA, approved by the state legislature, and sent to HUD for final approval in August includes:

- \$95 million for a Long Term Recovery Loan Program to leverage an estimated \$550 million in funding for fixed assets, equipment, and working capital;
- \$38 million for a Small Firm Recovery Loan and Grant Program targeting firms that do not qualify for conventional financing and/or loans from the Small Business Administration;
- \$28.5 million for a Louisiana Tourism Recovery Program to revive the second largest industry in the state, in terms of employment; and
- \$9.5 million to provide technical assistance to small firms seeking to recover in a changed, post-storms marketplace or to start new businesses in the impacted communities.<sup>7</sup>

An August 2006 “anniversary” story in *Inc.com* magazine portrays a stubborn optimism gleaned from a three-state selection of small business owners:

- Finding the capital to recoup and rebuild hasn’t been an easy task, either. While more than 22,000 small businesses were granted a total of \$2.5 billion in federal low-interest disaster loans by the Small Business Administration—a process business owners and lawmakers say has been marred by costly delays—many are still waiting out lengthy insurance assessments. Often, they are denied coverage for damages caused by water and not wind.
- Yet, despite these setbacks, small businesses in the Gulf Coast are staging a comeback. For those that call the region home, rebuilding has been approached with the same stubborn determination that made them entrepreneurs in the first place. Many consider themselves lucky still to be standing, and believe it or not, thankful for what the experience has taught them about themselves and their companies.<sup>8</sup>

That global, anecdotal upbeat assessment may not hold for particular areas: it is more positive than many reports about small business in New Orleans. Focusing on that city, *Times-Picayune* editor Jed Horne provides a warning about contrasting economic futures and the interplay between public capital investments and business outcomes:

- Louisiana’s economy usually coughs up 15,000 housing starts in a year. We’re looking at somewhere in the neighborhood of 200,000 houses that need to be essentially replaced, and that’s in New Orleans alone—well more than a decade of demand packed into the here and now, with the feds paying a big part of the bill. Shoring up the city’s crumbling sewer and water infrastructure had a billion-dollar price tag on it even before Katrina pushed over trees and ripped root-snarled mains and conduits and made it impossible to defer maintenance any longer.
- Repairing that rat’s nest is a mini-boom in and of itself in a city that has never seen a billion-dollar construction project. Not to mention continuing work on the levees, the gas and electric grid, the schoolhouses that need to be replaced, and so on across the whole swampy cityscape.
- To be sure, reality usually plies a middle course between alternatives so stark. Much has been made of the Disneyland effect, whereby New Orleans comes back as a lifeless museum memorializing the culture that it killed off by failing to rein in the forces of gentrification. The older riverfront neighborhoods—the French Quarter, the Garden District, Marigny and Uptown—become a playground for the rich in a city without housing for the working poor who once served them.
- But there’s another scenario that’s both more noxious and more likely: not Disneyland, but Shantytown. Given continued mismanagement up and down the political flow chart, the economic revival of the city at the mouth of the continent’s mightiest waterway could start hardy, only to peter out. A city that even before the hurricane could not maintain its infrastructure will now try to do so with less than half the population and tax base. And it could fail.<sup>9</sup>

But that’s the puzzle about predicting the course of recovery from disasters: basing projections on past performance will only get one so far. The situation is completely unique and nobody, no matter how nuanced their local knowledge or how upbeat their faith in entrepreneurship, really knows how well the public or private sectors will perform. And unlike some other disasters, the housing, public infrastructure, workforce, and business recovery needs are so thoroughly intertwined that rebuilding cannot succeed unless all three are adequately addressed in a coherent fashion.

First steps in the area of support for the workforce are also now underway, as described in this recent announcement from the LRA:

- CDBG funds will be used for demand-driven, sector-based workforce training programs that will include comprehensive strategies for recruiting, training, hiring, and retaining a skilled and productive workforce specific to the immediate needs of the hurricane impacted regions and recovery-critical sectors. The recovery-critical sectors are: Advanced Manufacturing, Construction, Cultural Economy, Healthcare, Oil and Gas, Transportation. Other sectors will be considered on a case-by-case

basis. Eligible entities are organizations that form alliances, preferably regional alliances, led by a workforce intermediary and including key stakeholders which include, but are not limited to: employers in a specific sector, business groups and/or industry/trade associations representing a specific sector, public and private post-secondary education institutions, Workforce Investment Boards, labor or community based organizations, other training providers.<sup>10</sup>

The intent is straightforward: train people for skilled jobs in industries that need workers immediately, and do this in a collaborative manner that will build networks that will be valuable to the state for the longer term. The community and technical colleges and universities, some of which were badly damaged by the storms, will need not only to be able to restore their facilities but also to restart, or gear up for more, programs that prepare students for the recovery-critical sectors. For example, Xavier University, which has long been a national leader in sending African American students into health and medical careers, and Southern University in New Orleans, which is the starting point in higher education for so many lower-income students, suffered debilitating damage which they are struggling to repair, as are the LSU and Tulane medical campuses, the University of New Orleans, and Dillard University.

In the long term, restoring the research capacities of the state's higher education institutions could be as critical to the economy as maintaining their teaching functions.

### **Building for Growth and Equity in the Long Term**

At the January launch of the project to create a South Louisiana Regional Vision, an LRA board member said that there had not been much of a culture of planning in the state, and if we do not take advantage of this situation to create one, then "shame on us."<sup>11</sup> Plans of this scope, incorporating coastal environmental remediation, metropolitan land use, and economic development, are usually pulled together in more normal times, but the urgent recovery efforts in which so many Louisiana stakeholders are intensely involved can actually stimulate and focus their ideas for the future. If they are to develop a collective vision and match it to practical policy steps for local and state government, this will likely build on some of the following economic development goals:

- Aim for opportunities that encourage the "high road"—higher wages, better benefits, and more stable employment, for existing sectors such as hospitality and tourism.

- Stimulate the growth of knowledge-based industries that build upon the assets and expertise of the region. If new areas, such as biofuels, are developed as a new market for agriculture, for example, keep as much of the value-added technology and business processes local to Louisiana as possible.
- Develop specific strategies for the activity generated by the rebuilding boom, to develop new areas of business expertise and greater local capacity in construction, environmental remediation, “green building technologies,” and other aspects of sustainable development.
- Strengthen every aspect of the education and training system, with particular emphasis on the community college level, which is well below the level of impact that will be needed for technical jobs.
- Use metropolitan infrastructure investments to improve all residents’ access to jobs, quality schools, and safe neighborhoods, conserve land and energy resources, and otherwise advance sustainability and social equity.<sup>12</sup>

These long-term goals, or some other version of them, will likely be vetted, refined, and adopted as part of the long-range plan for the region by next spring. Such goals could provide guidance for action recommendations beginning in 2007 for the LRA, other entities of state government, the five metropolitan planning organizations in south Louisiana, parishes, cities, and towns. Success will depend on government embracing standards for policy implementation that ensure the efficient use of scarce funds and accountability for public benefits on the part of the firms that receive assistance. It will also depend on a citizenry that sees the value of, and actively supports, coordinated planning for equitable, sustainable regional development. If that kind of economic development system can be put into place, from vision to outcomes, Louisiana will become a national leader in that respect as well.

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<sup>1</sup>Louisiana Recovery Authority, presentation by executive director Andy Kopplin, March 2006.

<sup>2</sup>*New York Times*, August 25, 2006.

<sup>3</sup>National Center for Public Policy and Higher Education, *Measuring Up 2004*, cited in *Louisiana Solutions to Poverty: Engaging Ideas, Empowering People, Enhancing Lives*, May 2005

<sup>4</sup>[www.dss.state.la.us/Documents/OFS/Solutions\\_to\\_Poverty\\_Documents/GovernorsSummitSTOPReport.pdf](http://www.dss.state.la.us/Documents/OFS/Solutions_to_Poverty_Documents/GovernorsSummitSTOPReport.pdf).

<sup>5</sup>Opinion page staff, *Baton Rouge Advocate*, September 6, 2006.

<sup>6</sup>CNNMoney.com, August 24, 2006.

<sup>7</sup>Louisiana Recovery Authority, press release, August 11, 2006.

<sup>8</sup>Angus Loten, "Surviving Katrina: How We Did It," *Inc.com*, August 18, 2006.

<sup>9</sup>Jed Horne, "For New Orleans, a Boom or the End?" *Boston Globe*, August 26, 2006.

<sup>10</sup>Louisiana Recovery Authority, September 1, 2006.

<sup>11</sup>Comments of Walter Leger, LRA board member, January 18, 2006.

<sup>12</sup>These points are the responsibility of the author, but they reflect elements of the presentations and discussions at stakeholder workshops held for the South Louisiana Regional Vision project in New Orleans, Baton Rouge, Lake Charles, Lafayette, Houma, and Mandeville during July and August 2006, involving more than 1,000 persons, and on research conducted by Policy Link ([www.policylink.org](http://www.policylink.org)) and the Brookings Institution Metropolitan Policy Program ([www.brookings.edu/metro/](http://www.brookings.edu/metro/)). A summary of the preliminary priorities for economic development from the stakeholder workshops can be seen at [www.louisianaspeaks.org](http://www.louisianaspeaks.org).