

Economic Issues In Homeland Security

“The issue of course is whether or not good intentions are met with actual dollars spent.” President George W. Bush¹

1. The Homeland Security Program

Within two weeks of the September 11, 2001 attacks on the World Trade Center and the Pentagon, President Bush announced that he had used his executive authority to create an Office of Homeland Security within the office of the presidency. The purpose of the office was to “coordinate” the counterterrorism and response activities of some 40 separate offices and departments. Before the President acted, some members of Congress had been urging a different approach - the establishment of such an office with statutory and budgetary powers. There was concern that an official lodged in a White House office would not have the direct control over resources to achieve the concerted government actions that would be needed to prevent terrorist attacks and to respond to emergencies. The US Senate, then under control of the Democrats, also wanted oversight powers which could not be exercised over a presidential office. Bush resisted Congressional pressures until the confused

¹ New York Times, Feb.22, 2006, Bush Admits to ‘Mixed Signals’ Regarding Laboratory on Renewable Energy.

response to the appearance of anthrax on Capitol Hill increased demands for stronger homeland measures.²

Still, more than a year went by as the White House and Congress wrangled over the details of the legislation creating the Department of Homeland Security. The two branches argued about the size of the homeland security budget, the rights of employees of the new department, the liability of airport security companies and those who would supply vaccines and anti-terrorism technologies, the right of the government to conduct electronic surveillance, and other issues.³

The Administration's initial opposition to a statutorily based department was misdirected but not trivial. A homeland security program properly structured and implemented could have far reaching implications about the reach of the government, budget allocations, and the government's role in the national economy. Homeland security involves not just police type activities of surveillance, inspection and guarding of assets, but also strengthening critical infrastructure, maintaining a healthy environment, and responding to disasters. To those ideologically disposed to limit the powers of the federal government, and the activities for which money needs to be spent, especially in domestic affairs, the consequences of creating a new agency through legislation were to be avoided.

² 2001 Congressional Quarterly Almanac, pp 10-4 – 10-5.

³ Adriel Bettleheim, Homeland Security Department Adrift in Appropriations Doldrums, Congressional Quarterly Weekly, Oct.12, 2002, pp 2650-2651; Mary Dalrymple, Department's Blueprint Approved, Final Plan Far From Complete, CQ Weekly, Nov. 23, 2002, pp 3072-3077.

The law that created the Department of Homeland Security (DHS) assigns 4 basic missions to it. They are:

- 1) to prevent terrorist attacks within the US;
 - (2) to reduce the vulnerability of the US to terrorism;
 - (3) to control the damage and assist in the recovery from terrorist attacks;
- and
- (4) to act as a focal point regarding natural and manmade crises.

2. Priorities and Budgetary Constraints

Stating the missions has been easier than accomplishing them. Controversy and questions about them were debated in Congress when the original legislation was under consideration, and there has been continuing controversy. Among the most important questions are, how much should the federal government spend for homeland security and where should the money go?

Supporters of a strong homeland security program have wondered about the Administration's commitment to it. One indication was a statement in October 2001 by the President's budget director that the Administration wants Congress to hold down other government spending to help pay for homeland security. Not only was this unlikely to be done, a sense of urgency about homeland security seemed to be absent at the White House so soon after the 9/11

attacks.⁴ At the end of 2002 the agencies about to be merged into the DHS had a combined budget of about \$38 billion which was not far from the amount being budgeted for the new agency. This prompted Senator Robert Byrd, who was then chairman of the Senate Appropriations Committee, to say, “The president is quick to champion homeland security, but his budget priorities reflect a different agenda.” Representative David Obey, ranking Democrat on the House Appropriations Committee, expressed a similar sentiment when he said that activities critical to blocking terrorist actions continue to hobble along with resources that in many instances are only negligibly greater than the levels available before 9/11.⁵

The Katrina disaster in New Orleans and along the Gulf coast was the first real test of the new agency. All now acknowledge that the response of the Federal government to the Katrina disaster was itself disastrous. In the midst of the crisis the head of the Federal Emergency Management Administration (FEMA) was fired, and a barrage of criticism has been directed at the President, the head of DHS, and the state and local governments for mishandling the situation. The relevant House and Senate committees in the Republican controlled Congress also have been severely critical.

⁴ Adriel Bettleheim and Rebecca Adams, Threats and Priorities, Congressional Quarterly, Oct.20, 2001, pp 2450-2451.

⁵ Mary Dalrymple, op cit; Bill Ghent, Obey Criticizes White House for Politicizing Homeland Security, CongressDaily, Dec. 19, 2002, p.4.

It has been pointed out by many observers that if the new agency is not able to respond effectively to a natural disaster that was well predicted it seems unlikely that it would respond effectively to a terrorist attack that could not be predicted. Only with time and the next crisis, natural or man-made, will we be able to tell whether DHS will perform as intended in the future.

The prospects are questionable for several reasons. The new agency was formed on a shaky foundation of initial White House opposition, turf struggles among various bureaucracies, poor planning, and inadequate funding. A large part of the patchwork of government programs and activities that DHS was supposed to replace was retained, with White House support, by the agencies that were supposed to give them up. More serious are the White House constraints placed on DHS.⁶

Although the administration now considers the homeland security program a major achievement in its efforts to combat terrorism, it has limited the growth and the authority of the program, and refused to allocate the funds required to allow the agency to do its job. There has been a drum beat of criticism from members of congress and others of under funding for first responders and for other needs such as improved port security and bioterrorism preparedness.

One way to understand the low priority that the Administration assigns to homeland security is to compare how much it is willing to spend for it compared

⁶ Washington Post, December 12, 2005, Department's Mission Was Undermined From Start.

to the amount it spends for the military. Under the current budget proposal, \$42.7 billion will be spent for DHS and somewhat more for activities out side of DHS related to homeland security. In the coming year, \$562 billion will be spent for the military including the wars in Afghanistan and Iraq. The recent budgetary trends suggest modest gains in spending for homeland security, from a low base, in contrast to major increases for the military.

A task force report issued by the Council on Foreign Relations in 2003, titled *Drastically Underfunded, Dangerously Unprepared*, demonstrated the lack of progress of the fledgling agency. Included in the report's findings were that fire departments across the country lacked adequate equipment for an emergency, including radios, and breathing apparatus, that police departments lacked protective gear for use in an attack involving weapons of mass destructions, and that public health facilities did not have adequate resources to respond to a chemical or biological attack. It was estimated that \$98.4 billion, above what was then budgeted for emergency responder organizations across the country, was required to establish a minimum effective response to a catastrophic terrorist attack.⁷ In July 2005, an issue brief from the Council indicated that first responders, including "police, firefighters, emergency medical workers and hospitals remain under-prepared to cope with attacks involving mass casualties."⁸

Those who followed the subject of the vulnerabilities of the US and who were

⁷ Council on Foreign Relation, *Emergency Responders: Drastically Underfunded, Dangerously Unprepared*, June 2003. Members of the task force included, Warren B. Rudman and Richard Clarke, co-chair persons, William J. Crowe, former chairman, Joint Chiefs of Staff, George P. Shultz, former Secretary of State, and William H. Webster, former director, FBI.

⁸ Council on Foreign Relations, *Defense and Homeland Security Issue Brief*. July 2005,

familiar with the controversy about the levees were not surprised by what happened in New Orleans..

3 Failure of the Levees

Katrina reveals the consequences of the Administration's policy of neglect of the needs of first responders and of the weak and fractured state of what the Homeland Security Act refers to as the critical infrastructure that provides the underpinning of the economy of New Orleans and the surrounding area. To be fair, many others share responsibility for the conditions that existed in New Orleans. Prior Administrations and state and local governments failed over a period of many years to properly maintain and upgrade the infrastructure. The break downs in New Orleans include the levees that were supposed to protect the city against hurricanes, numerous oil and gas production, refinery and pipeline facilities, various roads, bridges, causeways, and rail facilities, water and sewer systems, the electric power system, telephone, and other communications systems, and the network of public health facilities.

The response to the hurricane was notoriously slow and inadequate at all levels of government. But even if there had been an appropriate response the levees would have failed, much of the other critical infrastructure would have

failed, and the destruction of the city would have proceeded. Of course, a better response could have limited the damages and saved many lives.

In the years preceding the storm President Bush cut funding for Army Corps of Engineers projects designed to strengthen the New Orleans levees. Local officials complained for years about the inadequacy of federal spending for hurricane protection and flood control projects. According to reports in the New Orleans Times-Picayune, constraints were placed on the projects because of concerns about the costs of the war on terrorism. In 2004 the Bush Administration reportedly ordered the Army Corps of Engineers not to begin any new studies of the costs of raising the height of the levees surrounding New Orleans, although a pilot study had been completed. It was also reported that the Corps spent \$430 million for the Southeast Louisiana Urban Flood Control Project but that at least \$250 million in crucial projects remained.⁹

The budget cuts have led to charges that Bush is to blame for the flooding. Both the White House and the Corps assert that even if the projects had gone forward flooding would not have been avoided because the projects were intended to protect against category 3 hurricanes and what hit New Orleans was a category 5 hurricane. This argument fails for 2 reasons. First for years it was widely feared that a category 4 or category 5 hurricane could strike New Orleans and experts had recommended repeatedly that the levees be strengthened to meet such a

⁹ New Orleans Times-Picayune, October 13, 2001, April 24, 2004, June 8, 2004, September 22, 2004, June 6, 2005.

danger. Secondly, while Katrina was a category 5 before it made landfall, the National Hurricane Center downgraded the storm's intensity at landfall to a category 3 hurricane.¹⁰

It cannot be known whether full funding of the levee projects would have protected the city. What is known is that there were many warnings over the years that the levees could fail and that the levees did fail. More important with regard to present policy is what the funding issue says about the President. It is apparent that he believed there were other more important priorities than strengthening the levees, for example, cutting taxes and increasing military spending.

4. The Human Dimension

The human dimensions of the Katrina disaster include extensive loss of life, and total destruction of homes, entire neighborhoods, small businesses, and livelihoods. Except for the number of fatalities, the human side of the disaster is greater in New Orleans, and along the Gulf Coast, than that caused by the 9/11 attack. Even the number of fatalities, which are estimated at 1300 at the time of this writing, are believed to be rising as more information is collected about the evacuees and displaced persons. As of this writing, only about 1/4th of the

¹⁰ Washington Post, December 22, 2005, Report Revises Katrina's Force.

residents of New Orleans had returned. It is still not clear whether and to what degree normal life will be resumed in the city for the original residents.

5. National Implications

To what extent do the problems revealed by Katrina exist elsewhere? The short answer is, to a very large extent. Similar conditions and vulnerabilities exist in every state and in virtually all major cities. There is a pervasive absence of adequate public investment for infrastructure and its maintenance throughout the U.S. The presence of inner city poverty, the effects of which will be discussed shortly, is also widespread.

Coordination of efforts to protect the nation's critical infrastructure is one of the primary responsibilities of the Department of Homeland Security. The critical infrastructure is defined as the physical assets, processes and organizations employed in the production and distribution of much of the nation's goods and services whose destruction or incapacity would, among other things, cause catastrophic health effects or mass casualties, impair the government's ability to ensure public health and safety, damage the orderly functioning of the economy, or damage public confidence in national economic and political institutions.¹¹

¹¹ John D. Moteff, Critical Infrastructures: Background, Policy and Implementation. Congressional Research Service, Library of Congress, December 21, 2005.

The categories of assets to be protected include transportation, communications, banking and finance, energy, agriculture, and water supplies. Among the specific assets are major power generators, hydroelectric facilities and dams, electric substations, nuclear power plants, natural gas pipelines, oil pipelines, refineries, airports, rail and highway bridges, tunnels, mass transit systems, chemical facilities, drinking water systems, stock markets and major banking centers, and primary data storage facilities.

Unfortunately, DHS has been slow to develop a program for providing assistance to protect the critical infrastructure based on the vulnerabilities of assets. Instead, as the President's 9/11 Commission pointed out, funds have been distributed to states as a form of revenue sharing. The result is that states with large populations and highly vulnerable assets such as New York, receive less funding per person than states with small populations and lower levels of vulnerability such as Wyoming. Additionally, the total funds available for assistance are inadequate.

Protection of the critical infrastructure has been marked with funding problems. In the area of seaport security, port facilities remain subject to sabotage and the delivery of weapons of mass destruction in a container ship or one of a tanker's oil tanks. DHS provides port authorities with a small fraction of funds requested to improve inspections and security. The Coast Guard has assumed part of this task but in the years since the program was begun problems

such as comprehensive inspection of cargo ships and their containers still seem insurmountable. As of this writing, only 5 per cent of the 5 million containers that enter US ports annually are actually inspected. The fact that most ports are managed by foreign corporations appears to complicate the security problem.

US policy with regard to how homeland security is provided is that the government is responsible for activities, such as national defense and border security, which are outside the private market. The assumption is that incentives in the private market will take care of the 85 percent of the critical infrastructure that is privately owned. Thus in sectors such as the chemical industry, nuclear power plants, air cargo, telecommunications, banking and finance, and agriculture, the government expects private companies and local authorities to invest in what is necessary to reduce vulnerabilities. So far the results have been far from satisfactory. Most private firms do not believe the commercial incentives are great enough to justify investing in reducing their vulnerabilities.¹²

There is a separate set of problems regarding the public infrastructure - roads, bridges, dams, water projects and the like. The problem is one of obsolescence and decay because of inadequate public investment. A recent report by the American Society of Civil Engineers quantifies many of the shortfalls. This group conducts periodic surveys to assess the condition of the nation's infrastructure. The latest report, completed in 2005, before Katrina, assesses and

¹² Phillip Auerswald and others, *The Challenge of Protecting Critical Infrastructure*, Wharton School, Center for Risk Management and Decision Processes, October, 2005.

assigns grades for each of 14 categories including airports, bridges, dams, drinking water facilities, energy, hazardous waste, rail systems, roads, schools, transit, and wastewater. It can be seen that the Engineers' list roughly coincides with the government's categories of critical infrastructure, although many of the individual assets would not qualify as critical because of their size and other factors.¹³

The major conclusion of the report is that all categories of the national infrastructure suffer from underinvestment and neglect, and that spending would have to increase by \$1.6 trillion over the next 5 years to bring them up to reasonable standards. Most of the grades given by the civil engineers group are Ds, with a sprinkling of Cs. Overall, the grades are somewhat lower than in the group's 2001 report, the most recent previous survey which assigned grades.

Among the specific findings are the following:

1. The power grid is in urgent need of modernization, and bottlenecks and the risk of blackouts are increasing. Yet, annual maintenance expenditures have decreased by 1% per year since 1991.
2. Of the nation's bridges, 27.1% are structurally deficient or functionally obsolete.

¹³ American Society of Civil Engineers, Report Card for America's Infrastructure, 2005.

3. The number of unsafe dams has risen by 1/3 since 1998 to more than 3,500.

4. Spending would have to increase by \$11 billion annually to comply with safe drinking water regulations.

5. Limited rail capacity is causing significant chokepoints and delays for the 1st time since WW11.

6. Poverty and the Left Behind

Katrina also revealed the extreme social disparities that exist in New Orleans, based on income and wealth, and some say also based on race, and the effects of the storm on the large concentration of the poor, mostly black residents. Before the storm hit the area, those who owned automobiles were able to leave. Those who did not own automobiles were not able to leave. Most of the people left behind and who became trapped by the floodwaters, lived in neighborhoods of extreme poverty, and did not own automobiles.

The TV images during the storm of tens of thousands of people, in the poor neighborhoods, huddled on rooftops to escape the flood waters, with corpses drifting by, and the subsequent plight of the survivors, documents the potential consequences of urban poverty in times of emergency. The extreme poverty that

exists in New Orleans obstructed efforts to evacuate the city, endangered many lives, complicated rescue efforts, and resulted in the dispersal and dislocation of a large portion of the population.

It should go without saying, but needs to be said anyway, that concentrations of urban poverty are not unique to New Orleans. Similar conditions exist in nearly all major US cities. The top 10 in this category, include, in addition to New Orleans, Fresno, California, Louisville, Kentucky, Miami, Atlanta, Long Beach, California, Cleveland, Philadelphia, Milwaukee and New York. Others such as Washington, .D.C., Memphis, Baltimore, Los Angeles, Minneapolis, El Paso, Chicago and Detroit, are not far behind in the list of cities with high concentrations of the poor.¹⁴

7. Poverty and Policy

An important point about the concentrations of urban poverty is that they are at least in part policy driven phenomena. They are the consequences of decisions by federal, state, and local authorities which, over a number of decades, have perpetuated such inner city concentrations. The policies include those that govern federal housing; federal highways which facilitate the development of urban sprawland white flight from inner cities; tax policies that favor investment

¹⁴ Alan Berube and Bruce Katz, *Katrina's Window: Confronting Concentrated Poverty Across America*. The Brookings Institution, October, 2005. The concentrated poverty rate is derived from the proportion of all poor people who live in extreme-poverty neighborhoods. In these neighborhoods more than 40 percent of the residents were below the federal poverty threshold in 2000.

in suburbs; and federal flood control policies which make possible the building of housing developments in former wetlands and flood plains in urban areas. The lack of access of the poor in inner city neighborhoods to affordable housing, good schools, job training and job opportunities with adequate wages, health care, and goods and services also can be tied to government policies.

Conclusions

During the Cold War, it was argued by some western experts that the Soviet Union had a dual economy composed of military and civilian sectors. The military sector was said to be relatively self-contained and the more privileged of the two. According to this argument, the military was given all or most of the available resources it wanted and the highest quality material and human resources. Many of the weaknesses of the civilian sector were said to be a consequence of its second class status. This was not a totally accurate picture in my view, but there was some truth to it.

In the US there was during the Cold War some aspects of the duality attributed to the former Soviet Union. The importance to national security of maintaining a healthy economy was widely acknowledged by Washington during that period. But with some exceptions – and maintaining what was called a healthy defense industrial base was a major exception - the needs of the civilian

economy were often given a lower priority to the perceived requirements of the military.

As shown by the poor condition of much of the nation's public infrastructure, major aspects of the domestic economy have been neglected. There was a failure to properly balance the requirements of national security with those of the domestic economy. Of course, I would not attribute all or most of our economic problems to this dynamic. Nevertheless, during the Cold War public investments in areas such as flood control, railroads, bridges, public transportation, and water projects were not undertaken, postponed, or rejected, while requests for increases in military spending were almost always approved. We are once again in such a period.

One of the economic lessons of Katrina concerns the relative importance and the levels of effort regarding homeland security. In the past, including the recent past, there has been more lip service than action given to the goal of securing the homeland. The establishment of DHS as a cabinet level department was a useful step for 2 reasons. It gave official recognition to the importance of the national, government- mandated goal of homeland security. This appears to have raised the general awareness of its importance.

The new department also provides a focal point and a mechanism for taking action to reduce vulnerabilities and strengthen the economy. So far, what has

actually been done amounts to very small steps forward. In view of the inadequate progress towards achieving reasonable levels of homeland security, it is apparent that Washington does not fully appreciate the extent to which many years of underinvestment and neglect have weakened the nation's infrastructure, how government policies have contributed to urban poverty, and how these conditions affect our vulnerability to acts of terrorism and natural disasters. To paraphrase what President Bush said in another context, the issue is whether the declared goal of achieving homeland security is met with actual dollars spent at all levels of government and by the private sector.