

**ICIC Response to Hurricane Katrina**  
**Key Points, November 2005**

**The nation has been shocked by descriptions of the poverty and destitution of inner city New Orleans, and rightly so. No-one would deny that New Orleans faced serious economic challenges even before Hurricane Katrina, but the catastrophe has cast a spotlight on the vulnerability of the working poor in America.**

- *High levels of unemployment...*
  - High unemployment rate
    - Inner city: 13%
    - Surrounding MSA: 5%
  - Slow overall job growth
    - Inner city: -0.90%
    - New Orleans MSA: 1.27% (rank 236 of 361)
    - Average U.S.: 1.55%
- *...and poverty...*
  - Poverty Rate
    - Inner city: 38% (2<sup>nd</sup> highest in the U.S.)
    - Surrounding MSA: 13%
  - Median household income
    - Inner city: \$19,900
    - Surrounding MSA: \$27,300
  - Low average wages
    - New Orleans MSA: \$30,339
    - Average U.S.: \$35,081
  - Low average wage growth
    - New Orleans MSA: 3.28% (rank 228 of 361)
    - Average U.S.: 3.77%
- *...caused largely by an unproductive economic environment...*
  - Innovation (patents per 10,000 employees)
    - New Orleans MSA: 3.20
    - Average U.S.: 7.67
  - Traded establishment formation
    - New Orleans MSA: 3.00% (rank 242 of 361)
    - Average U.S.: 3.75%
  - Inadequate / inappropriate local government role
    - Neglect of inner-city infrastructure
    - Inadequate police coverage to control crime
    - Poor quality of educational system
    - Local government's reputation for graft, corruption, nepotism, and inefficiency blunts incentives for firms to compete and upgrade
    - Other? (e.g., taxes and utility costs, over-regulation, inappropriate zoning restrictions, insufficient social services)
- *...which did not sufficiently foster the development of key clusters*
  - Transportation and logistics, the second-largest traded cluster with total employment of over 20,000, lost 2,721 jobs between 1990 – 2002, when it would have been expected to gain over 5,000 had it kept pace with national trends

- Financial services, with total employment of 11,111, lost jobs when it would have been expected to gain 4,300 based on national trends
- Business services, with total employment of 14,548, only added 1,818 jobs when it would have been expected to add over 9,000

**However, there is good news. Excessive recent media coverage of crime, looting, and unemployment belie the fact that New Orleans possesses several durable economic advantages—particularly the size and quality of the inner city labor force, and key large, successful clusters—that can serve as a foundation for rebuilding**

- *Economic Activity: large local demand and presence of scale businesses*
  - Inner-city residents spend ~\$2B annually on retail goods alone
  - 41% of businesses with revenues over \$500K in New Orleans MSA were located in the inner city
- *Labor: The inner city labor force is hard-working and better-trained than might be expected. Lack of opportunities for advancement, not laziness, has held them back (“Working Poor”)*
  - Employment rate of 87%, and there is anecdotal evidence of many working two jobs
  - Size: 95,600 employed inner-city residents (87% of total workforce population of 105,000)
  - Education
    - College attainment rate: 17% (23<sup>rd</sup> out of 100 largest inner cities)
    - High-school attainment rate: 66% (43<sup>rd</sup> out of 100 largest inner cities)
- *Clusters: the outstanding success of two clusters (centered around tourism and oil and gas) illustrates the power that clusters with sustainable competitive advantage have to create local jobs and wealth for the community*
  - Entertainment / Hospitality / Tourism
    - Entertainment created 8,591 jobs, 7,500 more than would have been expected based on national trends
    - Hospitality and Tourism, the largest traded cluster employer (22,593 jobs) created 3,727 jobs, slightly below the national trend
    - Impact of Travel to the New Orleans Area
      - New Orleans Hosted 10.1 million visitors in 2004
      - New Orleans is the 5<sup>th</sup> largest convention destination
      - Tourism is the second largest employer in the New Orleans region.
      - The hospitality industry provides more than 80,000 jobs in the New Orleans area.
      - The New Orleans hospitality industry contributed \$156.8 million in tax revenue to the State of Louisiana last year.
      - The New Orleans area employs nearly 2/3 of all the hospitality industry workers in the state.

- Each household in Louisiana would need to spend an additional \$2,969 annually if the New Orleans travel industry did not exist.
- Oil and gas
  - Oil and gas created 2,660 jobs when it would have been expected to lose 733 based on national trends
  - Chemical products maintained employment levels (losing only 250 jobs) when it would have been expected to lose 1450 based on national trends
- However, there is still room for improvement in wages across all clusters, as wages in all clusters lag the national average

**The federal government has taken the first step towards rebuilding, which is to recognize the problem and earmark appropriate resources to address it**

- Over \$60B in assistance passed by Congress and signed by President Bush
- Gulf Opportunity Zone program will provide benefits to businesses through 2007
  - Double small business expensing from \$100,000 to \$200,000 for investments in new equipment
  - Provide a 50 percent bonus depreciation for all businesses
  - Extend tax relief to the building of new structures
  - Loans and loan guarantees for small businesses, including minority-owned enterprises
- Worker Recovery Accounts will provide targeted assistance for those victims of Hurricane Katrina who need extra help finding work

**At this point, the greatest challenge is to ensure that these resources do not simply put a short-term ‘financial band-aid’ over the problem, while doing nothing to restructure the underlying economic environment. Competitive advantages based solely on federal subsidies are not a long-term basis for economic growth**

- *Historically, over-allocation to charity and social programs have gotten people ‘back on their feet,’ only for them to find that their economic environment does not provide them with sufficient opportunities for job and wage advancement. Social and welfare programs are thus necessary, but insufficient as a long-term solution*
- *There are initial indications that the government is taking these considerations into account in its response*
  - White House and EDA’s response
    - Emphasize a leading role for the private sector
    - Based on a strategy that taps into the opportunities, assets, and advantages of the region
  - “We also must ensure that as many of the rebuilding jobs as possible go to the people of Louisiana, Mississippi, and Alabama.” – President Bush’s Fact Sheet on the Federal Hurricane Response
- *We applaud this, and encourage the government to push even further in this direction by carefully considering the incentives created by short-term aid programs, and by integrating the cluster approach into both short-term and long-term economic redevelopment plans*

One un-productive possible reaction is to bulldoze the entire inner city area. Nothing in this approach, per se, will prevent the inner-city slums from reappearing over time. Moreover, those initiatives that will promote long-term economic development do not require that the past be bulldozed, but rather can use current assets as a base for rebuilding.

A successful redevelopment plan will provide a sustainable, long-term basis for economic growth and prosperity, even after the subsidies and tax breaks end in 2007. Any such plan must be based on New Orleans' unique competitive strengths and advantages, attract competitive businesses seeking their own long-term economic interest in the city, and match job creation with the available local labor force. Finally, though there is a role for the federal government to help, New Orleans private and public actors must step forward and take the lead in creating a solution and generating local buy-in to ensure successful execution

- *Cluster-Specific*
  - Build on the strength of the tourism / hospitality / entertainment and oil / gas chemicals cluster
  - Restructure the economic environment surrounding the port, and transportation and logistics in general, to unlock its potential to create growth and attract high-value related and supporting businesses back to the region
    - *Brief port case study:* Due to its strategic location, the transportation and shipping cluster has the potential to bring great wealth and opportunity to New Orleans. However, in the past decade, the lack of cross-cluster coordination and investment across the five regional port authorities and hundreds of firms have caused the region to lose competitiveness relative to Houston and other Gulf ports. Simply implementing reforms that have already been identified through joint efforts between academics and local industry and government leaders could enable the industry not only to grow the current business, but also to expand into more upscale segments and attract related and supporting businesses that are more knowledge-based and pay higher wages
  - Identify and prioritize 2-3 other clusters for similar initiatives (e.g., Heavy Construction for rebuilding, Education and Knowledge Creation, Aerospace and Defense?)
- *Cross-Cutting*
  - *Investments in individuals*
    - Education
      - A lower proportion of inner-city residents graduate high school (66% vs. 81%) and college (17% vs. 24%) than in the surrounding areas
      - Increased training programs for key local clusters (e.g., ports / transportation, tourism) at universities and technical schools
    - Home equity: 36% of inner-city residents own homes vs. 69% in the surrounding areas
  - *Investments in the business environment* (building on efforts that had already been underway, but may have produced mixed results)

- Improved coordination of individual development initiatives to improve the business environment (e.g., Metrovision, JEDCO) with each other, with local businesses, and with broader cluster strategies
- Increased promotion of small business and entrepreneurship
- Increased police coverage and reduced crime
- Increased accountability of local authorities / reduced corruption and graft
- Reduced regulation and increased flexibility of zoning? (not sure about this)
- *Historically, there is a perception that economic development in New Orleans suffered from a reactive approach. Though problems may have been recognized and understood, initiatives to address them never gained momentum. Hopefully the need for redevelopment will provide a much-needed impetus for leaders to emerge and drive action, both at the individual and organizational level.*
  - The business community bears responsibility to better encourage and drive cluster initiatives and provide equal opportunities for employment and advancement
    - Including through local trade groups and industry associations

**Further good news is that there are leaders and organizations that possess the knowledge base and experience to craft and execute a successful development effort, through careful planning and close collaboration between public and private sectors. Among others, the ICIC and Michael Porter have a perspective on the economic redevelopment of New Orleans that is data-driven, tested, and proven through previous projects in New Orleans and other cities**

- *Research and advocacy*
  - State of the Inner City
  - Inner City 100 has shown how the advantages of the inner city (especially strategic location, underserved local market, stable and underutilized workforce, and opportunities to link with city and regional clusters) can combine to create growth and provide jobs
    - Though some of these companies were hurt by the Hurricane, the quick, proactive responses of help from other members in the Inner City 100 demonstrate the constructive force of inner city businesses
- *Consulting examples*
  - The ICIC has developed a market-based strategy for urban revitalization and can report examples of progress in virtually every major city in the country
  - Projects in St. Louis, Louisville, Milwaukee, Newark, Columbus, and Brooklyn