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SHARED SACRIFICE, STRONGER LEADERSHIP NEEDED IN AFTERMATH OF KATRINA

The President's speech from New Orleans on September 15 contained inspiring language and some promising proposals. Missing, however, was a statement of the need for shared sacrifice to cope with the fiscal implications of Hurricane Katrina, which could add as much as \$200 billion in costs (plus billions more in added interest payments on the debt), even as the nation faces severe long-term budget problems.

Two tax cuts aimed exclusively at high-income households are scheduled to begin taking effect on January 1. Families that earn at least \$1 million a year — a group that already receives an average of more than \$100,000 per year in tax benefits from *other* tax cuts enacted since 2001, according to the Urban-Brookings Tax Policy Center — would ultimately receive an *additional* \$20,000 per year from these two tax cuts, on average. These two tax cuts would cost roughly \$20 billion a year once fully in effect (when interest costs are included). Given the added costs of Katrina and the daunting deficits the nation already faces, can we afford to layer these tax cuts on top of the ones we already have? Can we at least discuss this issue? The matter remains off the table.

The President could have offered at least to defer these two tax cuts in return for some spending reductions, such as reduced earmarks in the appropriations bills that Congress will vote on in coming weeks. He could have called for a reassessment of priorities and some mutual sacrifice on a bipartisan basis. He did not.

And today, he ruled out consideration of any change in tax-cut policies, even those that are providing lavish tax cuts to the most affluent Americans while other members of society are suffering. Instead he called for any fiscal discipline to come entirely from cutting "spending," i.e., the programs and services that government provides. With the bulk of the Administration's tax cuts benefiting those at the top of the income spectrum, and with government programs and services being of considerable importance to large number of Americans of more modest means, this has the potential to be a prescription for policy changes that deepen poverty over time (despite the President's statement last night). It almost surely is a prescription for further enlarging the widening gaps between the most well-off and other Americans.

By contrast, President Clinton, a wealthy individual himself, noted this morning that in the face of the hurricane and the nation's budget deficits, people like himself should not continue to receive the large array of tax cuts that have been conferred on them in the past few years.

In 1990 and 1993, federal policymakers proved that it was possible to enact balanced, effective deficit-reduction legislation that included shared sacrifice and addressed both taxes and spending. But for history to repeat itself now, the President must show leadership on this issue.

Other omissions in the President's New Orleans speech relate to serious problems that are emerging in the immediate relief efforts to assist Katrina victims:

- **Health care.** The nation's governors have called, on a bipartisan basis, for the federal government to provide temporary Medicaid coverage to poor victims of Katrina regardless of whether they fit into one of the program's regular coverage categories.

Currently, an individual must be elderly, seriously disabled, a child, or a parent of a minor child to qualify for Medicaid. Katrina victims who do not fit into those categories are ineligible for regular Medicaid coverage, even if they have serious health conditions. They can try to seek care through an emergency room, free health clinic, or some other form of uncompensated care, but the existing infrastructure to provide uncompensated care is inadequate to deal with the large number of Katrina victims who are not Medicaid-eligible.

This is why the governors have called for dropping Medicaid's "categorical restrictions" on a temporary, emergency basis for hurricane victims. And Senate leaders — including Majority Leader Frist and Minority Leader Reid — have agreed on a bipartisan basis to provide temporary Medicaid coverage to poor Katrina victims regardless of whether they fit into a regular Medicaid category. The Administration, however, has resisted this idea, preferring instead to deal with states one at a time, in closed-door negotiations over possible waivers of federal Medicaid rules. This is likely to lead to a substantial variation among states in the health care coverage provided to evacuees and to leave many destitute hurricane victims uninsured.

- **Cash assistance.** Large numbers of poor children and parents are among Katrina's victims. Yet Texas, the state that has accepted the largest number of refugees, has now decided not to provide these families cash assistance through the Temporary Assistance to Needy Families (TANF) program, after originally providing one-time TANF assistance to some 185 families. This decision appears to stem in part from the absence of a clear signal from the Administration that states would be reimbursed for the cost of providing evacuees with TANF assistance.

Other states have chosen to provide TANF assistance to Katrina victims, however, and Texas has provided roughly 100,000 Katrina victims with *food stamp* assistance. The Administration should provide clear guidance and leadership to ensure that the help evacuees receive does not depend on the state to which they have been evacuated.

- **Unemployment insurance.** Large numbers of workers made jobless by the hurricane are receiving unemployment insurance (UI) benefits. However, Alabama, Louisiana, and Mississippi have the three lowest UI benefits in the nation, on average. In all three states, average UI benefits bring a family of four only to about *half* of the poverty line. Thus, these UI benefits will be inadequate to enable many families to meet basic needs, especially for families that have lost

most or all of their personal belongings because of the hurricane and families that have been evacuated to states where the cost of living is significantly higher than in their home state.

Another problem is that the state trust funds that are used to pay UI benefits are at risk, since the states are paying benefits to more workers but are receiving less in unemployment insurance taxes from employers. Proposals have been made for the federal government to fully fund the cost of providing UI benefits to workers made jobless by Katrina. The Administration has been silent on such proposals.

- **Housing.** There is growing concern across the political spectrum that FEMA is relying excessively on the use of trailers to house homeless evacuees. In some areas, evacuees could be provided with emergency “Section 8” vouchers to rent available apartments, as was done successfully after the Northridge, California earthquake in the 1990s. Not only would this approach be more efficient, but existing rental units would provide a more stable and secure environment for families and their children.

Some local public housing agencies are moving on their own to help evacuees obtain housing by putting them at the top of local waiting lists for voucher assistance or public housing units. But only the federal government can make more vouchers available. The Administration has shown no interest thus far in using vouchers to help house Katrina victims.

Additional leadership from the Administration in these areas would significantly ease the suffering of the thousands of Katrina victims.