Seismic Stimulus

The California Quake's Creative Destruction

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In April 1993, Congress rejected President Clinton's proposal for $16 billion of economic stimulus and public investment. Opponents attacked it as "pork barrel" politics, "tax-and-spend liberalism," and a budget-buster. Yet a year later, the same Congress easily passed a series of Clinton proposals to increase the fiscal deficit by spending $9.5 billion on emergency assistance and public works for Southern California. The difference, of course, was the Los Angeles earthquake, an event that revealed a great deal about the nation's ideological fault lines.

The disaster that rocked Southern California in January was the costliest in U.S. history. Sixty-one people died. More than 9,000 were injured. The quake destroyed more than $15 billion of property, including 21,000 housing units. It devastated highways in the nation's most auto-dependent region. The federal government provided disaster relief for Southern California, duplicating and expanding actions it took after the Midwest, South Florida, and other regions were ravaged by natural disasters.

The infusion of funds demonstrated what a well-timed shock of public spending can do for a depressed economy. Ultimately, Southern California received many more dollars in public infrastructure funding than it would have obtained from its share of Clinton's 1993 stimulus proposal. Indeed, when emergency aid for last summer's midwest floods is added, national deficit spending for disaster relief has, in the Clinton administration, actually exceeded the level proposed in the defeated April '93 package.

And it has worked. Less than six months after the earthquake, Southern California has finally joined the national economic recovery. Reeling from defense layoffs and previously expected to endure another six months of recession, California is now experiencing economic growth and net job creation for the first time since 1990.

This turnaround is thick with irony. Loud calls for federal disaster assistance came from some of the very leaders who had most strongly opposed the stimulus package a year before. When that aid provided just the kind of economic spark promised in Clinton's stimulus package, for exactly the same reasons, these leaders didn't hesitate to claim a share of the credit—not only for rebuilding the region, but for jump-starting the economy as well.

California's rebound should serve as a reminder that public works spending and income redistribution are still excellent ways to revive investment, create jobs, and rekindle growth. If government can spend to repair highways and rebuild homes ruined by natural disasters, it can surely use

public outlays to remedy economic catastrophes caused by misguided policy.

City of Angels

Public facilities—highways, overpasses, bridges, schools, water and power systems—all suffered substantial damage in the quake. The region has more than 600 miles of freeways and one of the nation's worst public transit systems. Many of the Los Angeles Unified School District's 650 schools suffered damage; a few were beyond repair. The district (like other government agencies, without earthquake insurance) reported damage of $500 million to $700 million. Some families and neighborhoods will never completely recover. In addition to the lives lost, many families lost all their belongings. Some landlords decided not to rebuild; many others raised rents beyond the cost of repairs, exacerbating the region's housing crisis. Some businesses will not reopen. Many Los Angeles neighborhoods, particularly poor areas, remained scarred with the rubble four months after the earthquake.

The disaster brought out the worst and the best in Southern Californians. Within days, a few landlords jacked up rents while some stores engaged in price gouging. Outside one Home Depot outlet, scalpers sold $6 flex pipes (for dislodged water heaters) for $20. Despite Los Angeles' reputation as an atomized megalopolis, however, the earthquake also triggered an outpouring of communal feelings and self-help efforts. Neighbors who had barely known each other came to each others' aid. Churches, synagogues, and other organizations mobilized emergency shelters. Twenty months after the riots, the earthquake produced virtually no looting. Carpooling and mass transit ridership increased dramatically and remains higher than pre-quake levels. (Mass transit ridership in the San Francisco Bay Area is still 30 percent above levels prevailing before that city's 1989 earthquake disrupted traffic patterns.)

Within hours of the Los Angeles earthquake, President Clinton pledged over $1 billion in federal relief funds: some to provide emergency housing, and the rest to rebuild the region's bridges, highways, sewer systems, school buildings, and other public facilities. In addition, the government proposed to guarantee low interest loans to small businesses and homeowners who had to rebuild or restock. Clinton promised that if more money were needed, he would ask Congress to appropriate the emergency funds. He did. Federal aid soon spiralled to $9.5 billion.

Federal relief efforts were remarkably efficient, particularly in light of the overwhelming demand for assistance and the potential for widespread panic. Within 24 hours of the earthquake, top officials from Housing and Urban Development (HUD), the Federal Emergency Management Agency (FEMA), the Department of Transportation (DOT), and other agencies were in Los Angeles assessing damage, distributing flyers, conducting community meetings to explain what assistance was available, and taking applications. With the help of local officials and volunteers, they set up shelters in school gymnasiums, churches, and recreation centers. Within days, federal agencies allocated thousands of emergency housing subsidies.

Staffers from federal agencies defied media stereotypes of government bureaucrats. They worked long hours, seven days a week, and bent rules and regulations—extending deadlines, for example, and applying with flexibility the requirement that only earthquake-related damage was eligible for assistance. Forms were translated into several languages and federal agencies made sure that their staffs spoke Spanish, Vietnamese, and other languages of polyglot Los Angeles.

The federal relief appropriation included more than $1.65 billion from the DOT for restoration of federal highways. (Caltrans, the state's transportation agency, contributed additional funds.) In addition, FEMA's earthquake relief budget included $1.43 billion to repair public buildings, $325 million for water and power systems, $200 million to repair local roads, and $315 million to fix damaged mass transit facilities.

Streamlined procedures sped funds to California. Road repair contracts were let quickly. The Santa Monica Freeway, the region's most heavily travelled, was reconstructed by March, more than two months ahead of schedule. The Golden State Freeway, linking northern and southern California, reopened in May, also earlier than expected. Officials estimate that total reconstruction of the region's infrastructure will be completed in a year.

In addition to helping repair public works, federal relief officials received half a million applications from individuals and businesses, and approved more than $1.4 billion in outlays by April. The Small Business Administration alone got 148,000 applications and funded 25,000 of them. FEMA took in 375,000 applicants for housing relief. It paid rent for 88,000 tenants and homeowners whose residences were uninhabitable and helped 149,000 homeowners to rebuild. HUD approved about 20,000 rent subsidies for low-income quake victims. Four months after the quake, requests still poured in: some victims filed late initial applications while others found additional damage to their homes or businesses.

Keynesian by Nature

Ordinarily, California business leaders are no friends of public investment or deficit spending. Like their counterparts across the country, the state's corporate community opposed Clinton's jobs plan and has been a foe of health care reform. Despite California's troubled economy, its corporate leaders (with the exception of major defense contractors hurt by military cutbacks) have long resisted Keynesian pump-priming to jump-start a recovery.

Around the country, the story has been the same. With his stimulus package, Clinton had hoped to create nearly a million public and private sector jobs, including summer employment for youths as well as "real jobs" in public works projects—repairing crumbling highways, rebuilding bridges, fixing outdated sewer systems, improving school buildings, and restoring parks and playgrounds. But a Republican filibuster killed the idea.

The earthquake changed that—and fast. Initially, congressional Republicans, including some right-wing legislators from California, wanted to offset any earthquake aid dollar-for-dollar with cutbacks in other areas of the federal budget—just as midwestern Republicans made a pass at blocking flood-relief-sans-cuts last summer, before backing down or being outvoted. After the earthquake, California business leaders quickly squelched such notions. The California Business Roundtable, composed of CEOs of the state's largest corporations, organized a letter-writing campaign to the state's Congressional delegation, urging members to avoid raising the spending cut issue. "You may be under pressure to seek cuts in the current federal budget to offset the . . . relief package," wrote Richard Rosenberg of Bank of America. "Please let . . . the California delegation . . . stand firmly together on the relief package."

This business mobilization stifled any divisiveness over how a massive infusion of federal funds would increase the deficit or waste taxpayers' money. Most of California's congressional delegation (29 Democrats and 23 Republicans who rarely agree on anything), its two Democratic senators, Republican Governor Pete Wilson, and Los Angeles' Republican Mayor Richard Riordan called for massive federal aid to repair physical damage and relieve human suffering. Despite efforts by Senator Robert Dole to keep the issue alive, bipartisan pressure from California's delegation led Congress to exempt all but $2.5 billion in earthquake-related appropriations from the balanced budget requirement that new expenditures be offset by other cuts.

Social Fault Lines

The earthquake also exacerbated social strains. It magnified conflicts over which immigrant quake victims qualified for what kind of aid. And it provoked the

authorities to engage in the absurd exercise of distinguishing between "deserving" quake victims and the "undeserving" victims of less dramatic catastrophes.

For several years, some California politicians have attempted, mostly unsuccessfully, to whip up resentment against illegal immigrants, particularly those from Mexico and Central America. But as the state's economy worsened in the recession, Governor Wilson and leading Democrats joined this chorus, alleging that the swelling ranks of undocumented workers took jobs away from California citizens and diverted tight tax dollars to illegal immigrants served by the state's schools, medical clinics, and welfare programs. Wilson, facing a tough reelection fight in November, proposed denying state health and education benefits to undocumented aliens and their children.

In the past, federal aid to victims of natural disasters was not contingent on citizenship or immigrant status. But Congressman Ron Packard, a Republican from Carlsbad, proposed an amendment to the earthquake relief bill banning disaster aid for undocumented immigrants. According to San Jose Democrat Don Edwards, a liberal and leader of the state's delegation, if Packard's amendment went to the House floor, "it would have passed 400 to 35." So in a compromise, Packard's proposal was changed to deny earthquake aid to undocumented residents after 90 days. HUD's rent vouchers, good for up to 18 months for other quake victims, were cut off for illegal immigrants after three months.

FEMA officials announced that immigration officers would begin checking applications for housing assistance, threatening that illegal immigrants caught seeking aid for which they were ineligible would be prosecuted. It marked the first time Washington threatened illegal immigrants with fines and prison to discourage them from using government services. Relief workers said that the new requirements would frighten illegal immigrants from applying for any help.

The New and the Old Homeless

Prior to the earthquake, an estimated 60,000 homeless people lived in Los Angeles County, the region with the nation's worst housing crisis. Los Angeles' public housing agency had a waiting list of 20,000. About 130,000 were on waiting lists for Section 8 housing subsidies.

The disaster added another 25,000 to the ranks of the homeless. Although many earthquake victims were middle-class renters and homeowners from the hard-hit Santa Monica, Malibu, and San Fernando Valley areas, victims also included many marginally employed people, doubled-up in overcrowded apartments or converted garages, living on the edge without the safety nets of insurance, credit, or health care. For this group, homelessness might not be just a temporary inconvenience.

Two days after the quake, HUD Secretary Henry Cisneros, who spent considerable time in Los Angeles overseeing the relief effort, announced an unprecedented package of emergency housing aid to help low-income quake victims pay for most of their rent for up to 18 months instead of the previous two-month limit. But a feud erupted over whether people who were homeless before the quake were eligible for the assistance. Federal rules required applicants for emergency housing aid—including space in shelters as well as rent vouchers—to prove that their permanent residences were damaged by the temblor. At first, some aid workers ignored these regulations. But the Los Angeles news media then reported stories of quake victims' complaints that some long-term homeless people were living in the new shelters—imagine that!—and applying for housing vouchers.

Faced with such challenges, federal officials tightened their screening. Shelters set up to aid earthquake victims refused to admit the long-term homeless. Families that had been on Section 8 waiting lists for years were denied housing vouchers unless they could prove that they had lost homes in the earthquake

Stamping Out Food Stamp "Fraud"

The earthquake also produced food riots. Tired and hungry, people flooded county welfare offices within days of the disaster to obtain emergency federal food stamps. Most were forced to wait for hours. At the Panorama City office more than 2,000 people began showing up before dawn. County social service staffers worked out of a tent set up in the parking lot. By noon, they had processed 600 applicants, but there were still another 1,500 people in line.

At some offices, mistaken rumors spread that the program had run out of money. Tempers flared. Some applicants accused others of not being "legitimate" earthquake victims and thus not eligible for emergency food assistance. Some applicants complained that others were cutting in line. Police tried to break up arguments, but lacked sufficient staff. Although most people waited patiently, a few grew unruly, leading to several incidents of fighting.

Initially, county welfare officials did not carefully screen applicants, eschewing the strict eligibility and verification requirements used in the regular food stamp program. An official explained that their goal was to process requests and distribute food stamps quickly. For the emergency program, the department "only requires verification of identity and residence." But after media reports of "food stamp fraud," government officials cracked down. Hungry applicants who could not prove that they were quake victims, or, if legitimate victims, could not provide sufficient documentation of low income, were denied emergency food assistance.

Relief vs. Recovery?

In America's implicit ideology of public investment, there is a hierarchy of what is permissible. Massive investment in national defense—$8 trillion over the life of the Cold War—is obviously tolerated. Defense spillovers that generate commercial technologies—jetliners, supercomputers—are also permissible, as long as we avoid looking too closely at the ideological implications. During the height of the Cold War, conventional public works outlays such as the absurdly titled National Defense Highway Act (the interstate highway system) were also routinely packaged as national security outlays.

When it comes to responding to a natural disaster, public investment for roads, bridges, and damaged homes or businesses is likewise legitimate. Public subsidies to "deserving" victims is appropriate, too. But government aid to the "undeserving" poor is still controversial. And so, apparently, is routine public investment beyond the traditional (and dwindling) category of national security—although, as the *Wall Street Journal* recently reported, a 68 percent increase in federal outlays for prison construction and high-tech police equipment may become America's de facto conversion program. Crime fighting and incarceration may now become the latest exception to our public spending phobia.

According to neo-classical economic theory, public investment is likely to be less efficient than a comparable amount of private investment, because private markets know better than politicians where to put capital, and public investment must necessarily be financed either by inflationary deficits or reduced by private saving and investment. But as the post-quake mini-boom in Southern California illustrates, the real choice is whether some investment is better than none. Academic worries about the inefficiency of public outlay were nowhere to be heard when disaster struck.

Yet why should it take a natural disaster—a flood, a hurricane, or an earthquake—to justify a large-scale federal public works or emergency relief plan? Officials spend tax dollars to help those who lose homes or jobs in a natural disaster. But many of the same leaders have limitless objections to public investment or safety-net expenditures when a much larger num-

ber of people lose their homes or jobs as a result of such man-made disasters as cyclical downturns, changing priorities or misguided economic policy.

Why isn't 10 percent unemployment—9 million Americans officially jobless, with an additional 6 million forced to accept part time jobs or too discouraged to look actively for work—considered a sufficient emergency to warrant federal action? If it is sound public policy to provide federal relief to an earthquake victim, why isn't it also sound to provide relief to a family whose income has been lost to defense cutbacks? The prospect of 150,000 aerospace workers laid off in California should be ample reason for Washington to invest in civilian projects to employ the now-wasted talents of skilled engineers, technicians and production workers. If we expect Washington to help people made homeless by a flood, shouldn't we also expect Washington to help those made homeless when their employers pull up stakes to relocate in Third World countries?

Similarly, the reality of the crumbling and outdated rail, road, and water network ought to trigger a massive public works program similar to our earlier interstate highway and space efforts. Despite greater competitive challenges, we now spend less than half what we spent 30 years ago on public infrastructure. In the 1980s alone, vehicle miles traveled on the nation's highways increased by 38 percent; as a result, DOT estimates that by 2005, road deterioration will cause $3.9 billion of vehicle delay annually—even without earthquakes. If it's legitimate for federal funds to rebuild a bridge that collapsed in an earthquake, shouldn't it also be legitimate to invest in mass transit so people can get to work in normal times? The Santa Monica Freeway section that crumbled in the earthquake had been scheduled for reinforcement the following month, after delays from lack of funds. If adequate public investment programs had been adopted earlier, reinforcements could already have been completed, avoiding needless disaster.

For the families of 1.5 million unemployed Californians who've been suffering from an economic earthquake for several years, the natural disaster may have provoked the government-sponsored stimulus which could have (and should have) been implemented much earlier. Most jobs created by the government's earthquake relief programs, like most jobs which would have been created by a stimulus program, are at private sector firms engaged either in rebuilding businesses or under contract to federal and state agencies. And when public investment puts money in the pockets of construction workers and engineers, they in turn spend paychecks on food, clothing, haircuts, entertainment, cars, furniture, and home repairs that put others back to work.

In the quake's immediate aftermath, conventional wisdom was that the region, suffering from defense cutbacks and riots, had now suffered another devastating economic blow. In fact, however, because of the stimulus of earthquake relief, the disaster was a boon for the regional economy. California gained 7,300 new jobs in January, 15,900 in February and 5,800 in March; this was the first consecutive three months of job growth since the recession began in 1990. Earthquake related counter-cyclical payments to Southern Californians will eventually total $15 billion, including not only federal relief efforts but state aid and casualty insurance payments as well.

The ripple effects of earthquake recovery expenditures could eventually create several hundred thousand new jobs in the Los Angeles area. Rising incomes will generate new tax revenues to offset the temporary deficit created by this public expenditure—just as Clinton's public investment and stimulus program could have done many months before.

Of course, the earthquake will have negative effects, offsetting some of this stimulus. The region's recovery could be retarded by earthquake-related decisions of businesses fearing to locate in California, or by the flight of frightened Californians to other states. Were it not for these incalculable factors, however, the economic impact of earthquake relief could be breathtaking.

The Business Forecasting Project of UCLA's School of Management is a widely respected group of analysts who publish quarterly projections of national and regional economic growth. Its April report announced that "the economic activity related to the earthquake will bring the recession to an end one quarter earlier than we had previously expected." The Forecasting Project then plugged the federal, state and insurance payments into its econometric model and, without accounting for the depressing effects of fear-induced business flight, reported:

> . . . nonfarm employment in California would surge upward by over 400,000 jobs in the next year, with about 100,000 of those jobs in construction. The unemployment rate in California would drop by two full percentage points and in Los Angeles the rate of unemployment would decline to a level of only 2.5 percent. As we have stated earlier, there is no precedence in any historical example for such a strong economic response to a national disaster.

This conclusion was so striking that even the UCLA modelers declined to endorse it. Instead, they discarded their computer projections and publicly announced a more conservative prediction (based on "historical analogies") that earthquake reconstruction would add only 20,000 new jobs in each quarter of the next year.

Even at the lower estimate of job creation, it is clear that the Los Angeles earthquake achieved what liberal economists, the unions, the mayors, and the White House could not—getting Congress to approve (at least for Southern California) large-scale public investment and income redistribution plans. But we can't keep depending on Mother Nature to push for activist government. That's the role of progressive politics.♦