

Remedies for New Orleans

By EDMUND S. PHELPS
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The nation is still reflecting on the sight of New Orleans unprotected from Katrina and too feeble from poverty to run from it. Yet some basic issues have scarcely been debated.

So far, the focus has been on what to do about lost and damaged infrastructure. For our legislators and the public, that has raised fascinating questions of political philosophy. The federal government does not pay to defend New York state against Lyme disease or New York City against terrorist attack. So it is a question why it is a federal duty to pay for measures to protect or repair New Orleans from local storms.

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The economist's answer is that a disrupted New Orleans has external costs on the farmers upriver and the producers everywhere who depend heavily on the city's great port to ship grain. At likely levels, New York's Lyme disease does not threaten the rest of the nation. Protecting Wall Street ranks high on that external cost test, but not high enough in the estimation of Congress. It is a matter of degree.

There is another national interest in New Orleans. It is one of the rare American cities with its own intriguing culture. Bill Clinton the other day cited the Mardi Gras, the jazz and the beignet with coffee. The city is almost the only open-air museum the U.S. has to vie with the museum-cities of Europe, from Bruges to Venice.

A hard truth, though, is that most of New Orleans is so vulnerable to hurricanes that it is not rational for governments to recreate its infrastructure on the former scale. Parts of the city are 10 feet under sea level and cannot be reliably guarded against storms in category four or five. These parts are best made non-residential.

Many of the displaced inhabitants, moreover, will be moving on. They will learn that jobs are more plentiful elsewhere. The pre-storm unemployment rate, at 10%, was normal by the standards of Europe's museum-cities but far above, say, New York City's 6% or the nation's 5%. New Orleans cannot create the jobs it did when the Mississippi was more important than it is now. It would be quixotic to build infrastructure for a level of commerce and capital that -- absent a basic change -- will not come.

The talk about rebuilding, however, misses the meaning that most viewers found in the scenes from New Orleans. The impact lay in the helplessness of a large segment of the population -- helpless not because of infirmities for the most part, but because their earning power or their very employability was so meager that they lacked a car with which to get out of the city, or did not have the cash for weeks away from home. The scenes thus made vivid the failure of the American economy to offer work and pay to the less advantaged that would provide them with economic independence and with access to something like the sorts of lives and jobs found in the rest of society. Whatever scale and

scope rebuilding takes, it will not raise pay rates of the working poor above pre-storm levels.

President Bush was asked at a press conference last week what might be done about New Orleans poverty. He spoke mainly of tax incentives to encourage investment and job-creation in the private sector. It is a mistake, though, to imagine that increased capital in one region of the nation can raise productivity and wages there if wages are not similarly boosted in the rest of the nation. As wages rose appreciably in New Orleans, low-wage workers in neighboring states would come in and drive pay rates down to national levels. A remedy for the poverty of the less advantaged must be national, not local.

He spoke also of ownership and wealth-accumulation. But Louisiana is not Egypt: It has rights to private property. The working poor cannot save much when their pay is so little.

Effective remedies for the low pay and employment of the working poor do exist, though ignorance and prejudice blocks their adoption. Economics has made clear how each of two kinds of employment subsidy act to boost paychecks and jobs. Both kinds are in use in the U.K., the Netherlands and France, where they are judged helpful.

An employment subsidy of a limited nature was adopted in the U.S. in the 1970s -- the Earned Income Tax Credit. This liberating law, much nitpicked, freed mothers of dependent children to work and earn in the commercial economy, thus to help raise their children and to have a rounded life. A deficiency was that it did not address low-wage men. It may have diminished their breadwinner role. The law is better now, but it still does not enable low-end workers without children, men or women, to be self-supporting and integrated into society.

One kind of remedy would be to universalize the earned income tax credit so it addresses all low-wage men and women equally. The other kind of remedy, one I and others have proposed, is an employment subsidy to employers giving them an incentive to hire more low-wage people and thus bid up their pay in the process. I need to stress that a subsidy here is a sort of matching grant, paid out for doing something -- it is not a handout, nor is it like the so-called subsidy to farmers for not planting. (Mr. Bush's enterprise zones are effectively schemes to subsidize capital, which is the wrong lever, yet no one shrinks in horror at those subsidies.)

Federal subsidies of these two kinds may be justified on the same ground as federal infrastructure. The consequences when the working poor are consigned to a laissez-faire labor market -- impaired schools, drug use, crime -- impose external costs on the rest of our society. A rights-based case for such a subsidy exists too. (There is no good case, though, for a handout, which undermines work and integration.)

The events in New Orleans pointed to the tragic flaw of a great nation still in denial about impoverished workers among its own citizens and in a muddle about its causes and cures. There is emerging a sense that it would be good to solve this problem. What is needed

now is an understanding of the policy innovations that would be constructive and those that would not.

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