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WOULD A NATIONAL ECONOMIC STIMULUS PACKAGE BE A WISE RESPONSE TO HURRICANE KATRINA?

TELECONFERENCE

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ROBERT GREENSTEIN: Good morning, everybody. With me this morning are two economists who are among the nation's leading experts on fiscal policy: Bob Reischauer, former director of the Congressional Budget Office and current president of the Urban Institute, and Peter Orszag, senior fellow at the Brookings Institution and co-director of the Urban Institute-Brookings Institution Tax Policy Center. Both have written many articles on issues relating to federal budget and tax policy.

Our topic this morning is whether there should be a new national economic stimulus package. The Center released a paper on this topic this morning, called *Another Round of Economic Stimulus?* <<http://www.cbpp.org/9-20-05bud.htm>>

Discussions have started among policymakers on the Hill and some lobbyists around town regarding the prospects for a new national economic stimulus package, maybe a month from now after the initial Katrina relief bills are passed. I'm distinguishing this possible legislation from proposals that would provide funding and tax breaks targeted on the Gulf Coast. What we're talking about here is legislation that could include a new round of national tax cuts, presumably not paid for (on the grounds that stimulus legislation shouldn't be paid for) and justified by the argument that we need stimulus legislation to keep the economy moving forward after Katrina.

Last week House Speaker Dennis Hastert said at a news conference, "I think something that we believe [is] we need to stimulate the economy. Right after 9/11, after this country saw a shock weaken its economy and people retreated, we thought it was important to have a stimulus. We're going to look at all of those and some of the things we have committed to do in this country."¹

But today we have a situation in which economists across the political spectrum generally concur that an economic stimulus package is unnecessary and would be unwise. Unlike the period after 9/11, we are not in a recession now. Glenn Hubbard, the former chair of the Council of Economic Advisers under President Bush, said last week, "We don't really need any national stimulus package

¹ Jonathan Nicholson, "House Formally Sets Week of Oct. 24 For Marking of Spending Reconciliation," Bureau of National Affairs, September 15, 2005.

in the form of more tax cuts either, particularly with federal spending at about one percent of GDP on Katrina. . . . So any case made for relief should be for relief in the affected region.” This morning on the Diane Rehm Show, I was opposite Steve Moore, who is on the *Wall Street Journal* editorial board and used to head the Club for Growth, the organization that ran ads against Senators Voinovich and Snowe when they dared question tax cuts in 2003. Steve’s view also is that there is no need for a national economic stimulus package.

In addition, the Congressional Budget Office issued a report on September 6 stating that “The overall economy was growing steadily at the time of the disaster.” CBO’s summer forecast had called for real growth of 3.7 percent in 2005 and 3.4 percent in 2006, and the September CBO report said that “The devastation in the Gulf Coast region is unlikely to knock the economy far from that course.”

The CBO report also stated, “Evidence to date suggests that the overall economic effects [of Katrina] will be significant but not overwhelming. Because they are concentrated in this year, there is potential to reduce growth by between one-half and one percentage point at an annual rate in the second half of 2005. (On a year-to-year basis, the impact may be as small as a few tenths of a percent of GDP.)” It went on to state that “While Katrina devastated ordinary business, it will also likely lead to a boom in clearing and reconstruction activities. . . . Economic growth and employment are likely to rebound during the first half of 2006 as rebuilding accelerates.”

Indeed, the conclusion that emerges from most of the economic analyses conducted to date on the matter is that if anything, economic growth will likely be *faster* in 2006 than it would have been without the hurricane because of all of the rebuilding.

Statements by Ben Bernanke, the current chairman of the President’s Council of Economic Advisors, are along the same lines. Also, Goldman Sachs, the investment house, has issued an analysis quantifying the degree to which economic growth in 2006 could be higher than it would have been without the hurricane.

Why could the growth rate be greater in 2006 as a result of the hurricane? Federal funding for reconstruction, relief, and recovery efforts is generally estimated at roughly 1 percent of GDP (most of which is likely to be spent in 2006). In contrast, CBO estimates that on a year-to-year basis, the negative impact of Katrina on the economy may be as small as a few tenths of a percent of GDP, and will be concentrated in the final months of 2005. Thus, by 2006, the infusion of new funding for reconstruction will exceed the economic drag that would otherwise result from the hurricane, producing a net increase in growth. If, as most analysts anticipate, the new expenditures exceed the economic loss in 2006, we could end up with a modestly higher rate of growth.

Yet any stimulus package enacted this fall wouldn’t have much effect until 2006, until *after* the modestly slower growth was already behind us. Such a stimulus package thus could end up constituting unnecessary expenditures that increase deficits and debt.

These views are coming from across the political spectrum. However, they run up against policymakers and lobbyists who see a possible opportunity to enact items on their wish lists by citing the “need” for economic stimulus in the wake of the hurricane.

ROBERT REISCHAUER: As Bob suggested, there is support among some people on Capitol

Hill and many people on K Street for a broad-based stimulus package in the wake of Katrina. What's notable is the deafening silence in support of this idea from professional economists or those representing financial interests.

The reasons for this lack of support are threefold. First, there's a consensus that such a stimulus package is unnecessary. Second, it would be an inefficient response even if stimulus were needed. Third, it would be imprudent and risky given the nation's current fiscal situation.

Let me just review quickly the impacts of this storm. From the perspective of individuals in the affected area, of course, it's been catastrophic: they've lost their houses and their jobs, they've been uprooted, and many of them have no source of income. From the standpoint of the region's economy, in the affected areas of coastal Alabama, Mississippi, and Louisiana, the impact has been very significant: business activity has plummeted, tourism has disappeared, gambling has gone away, the service sector is undoubtedly reeling, and many manufacturing establishments had to stop their activity. The impact on the national economy is significant but relatively modest, because this area is a relatively small piece of our overall national economy and because the loss of business activity in one region often leads to gains in business activity elsewhere. (For example, food that isn't purchased in New Orleans is purchased somewhere else instead, either by aid agencies or by individuals who have relocated.) On the other hand, from a national standpoint there is collateral damage that occurs when energy prices spike.

The damage to the affected region, coupled with the collateral damage to the rest of the country, clearly will affect economic growth in the short run. Most economists expect the growth rate for the second half of 2005 to be reduced by somewhere between 0.5 percent and 1 percentage point. The question is, should that be cause for alarm? Should it be a reason to consider a broad-based stimulus package?

The answer, I think, is no. First of all, the economy was in quite good shape going into this catastrophe. The projected growth rates for the second half of the year were somewhere between 3.5 and 4.2 percent, according to the consensus of *Wall Street Journal* economists, which isn't bad. Nor was the level of economic activity something to be concerned about. Our unemployment rate during the last few months has averaged 5 percent, and if you look at all of the quarters since 1970 you'll find that only 22 of the 142 quarters had unemployment rates that low. The major concern for the national economy seems to be the threat of future inflation, and the Federal Reserve has been busy inching up interest rates to help address that potential problem.

A stimulus package is unnecessary not just because the economy seems to be capable of absorbing this hit, but also because the hit is likely to be temporary, as energy prices fall back somewhat and as spending by individuals, governments, and charities acts as a stimulus to offset the loss of economic activity. We're also going to see people and governments rebuild their capital stocks; they have to create housing, repair infrastructure, and rebuild their stock of consumer durables. Many people who didn't think they needed a new washing machine or a car or a TV are going to end up going out and buying those types of consumer durables. So in 2006 we're likely to see a faster pace of economic growth than was projected before Katrina.

So for all these reasons, economic stimulus is unnecessary, based on the evidence we have right now. Even if it were to be necessary, broad-scale stimulus packages are an inefficient response to this type of problem. We've heard talk of broad-scale tax relief and spending programs that affect the nation as a whole, but what you would really want is programs that are targeted on the areas

where the effect has been greatest. The rest of the country is largely unaffected, except for the impact of higher energy costs. In addition, were we to go forward with some kind of stimulus package, its impact would undoubtedly come too late.

Finally, any stimulus package would probably end up being a grab bag of special-interest pork items that have little to do with Katrina. And rather than being temporary (which is what the situation would call for), it would likely last well into our future. That would exacerbate the already very troublesome deficit outlook and probably heighten inflationary pressures and concerns among America's creditors, who would wonder whether we had any capacity of exerting fiscal discipline.

Let me close by going back to the statement from the Speaker of the House regarding stimulus, which Bob quoted. The Speaker's memory is not as it should be. We did not fall into a recession after 9/11. The National Bureau of Economic Research says that the recession began in April 2001 and ended in November 2001. Of course the major stimulus package that was enacted was the 2001 tax cut, which the President signed into law on June 7, long before 9/11 and long before we had any indication that the economy was in need of assistance.

PETER ORSZAG: I'm going to make three very quick points. The first concerns the Dennis Hastert statement. This afternoon the Federal Reserve is expected to continue its policy of increasing the federal funds rate. That is very different from what was happening during 2001, when the Federal Reserve was aggressively cutting rates because of concerns about economic weakness. One does need to ask: Whom would you rather trust about whether the economy is in need of additional support, Alan Greenspan or Dennis Hastert? I know where I'd put my money. The fact that the Federal Reserve apparently intends to continue raising interest rates suggests that a national stimulus package is not needed.

Second, the main way in which Katrina could affect the national economy is in the energy sector. Even if the effect here were larger than appears likely, this sort of supply-side shock is very different from the type of economic weakness that is amenable to a fiscal stimulus. It's not at all clear that the right response would be to stoke overall demand. One needs to be very careful to distinguish between a typical business-cycle weakening, where the problem is insufficient demand, and a period of economic dislocation that's caused by higher energy prices. Those are very different things, as we learned during the 1970s.

My third point is that even if a fiscal stimulus were warranted, doing things on the tax side really doesn't make a lot of sense in terms of trying to maximize the "bang for the buck." The Congressional Research Service issued a report on September 16 suggesting that even the targeted regional tax relief that has been put forward for disaster victims may not be the most effective way of aiding the people who have been harmed by the hurricane. The report says, "In many ways the tax system is not well suited in helping the victims in disaster areas, and direct aid may be more successful. Many low income people who may be the most needy do not pay taxes. Only new provisions that allow refundable tax benefits would be of assistance to them. As with other short term uses of the tax system, enacting and distributing tax benefits is difficult, and tax benefits that are limited by region present administrative problems."

So not only would it be misguided to rely largely on the tax side of the budget for a national stimulus package, but there are even questions about whether it makes sense to rely on tax side when assisting the region that's been hit by the hurricane.

QUESTION: What about all of this talk about offsetting hurricane aid? Is that politically likely, and would it have much of an economic effect?

ROBERT REISCHAUER: Politically likely? I think the answer is no. Advisable? That's a value judgment. Personally, I would be very much in favor of paying for at least a portion of the cost through a package of spending restraints and tax increases.

I think it's reasonable for people around the world to ask if America is ever going to put its money where its mouth is. We have infinite compassion in this country as long as we can express that compassion by borrowing money from foreigners and others and asking our children to repay it. We have unquestioned resolve fighting terrorism as long as we can borrow the money to pay for it. One has to ask what our priorities would look like if we were actually taxing ourselves or restraining government spending to pay for these expressions of compassion and resolve.

ROBERT GREENSTEIN: There wouldn't need to be much concern about the cost of responding to the hurricane if we didn't already have an underlying fiscal problem to begin with. The big issue is that we have very serious mid-term and long-term fiscal problems. The optimal approach would be to provide the relief and the reconstruction that's needed on a temporary basis and to couple it with fiscal discipline measures on both the revenue and spending sides that are *not* temporary, thereby making progress on mid-term and long-term deficits.

In a paper we posted on our website yesterday, we discuss two tax cuts enacted in 2001 that haven't taken effect yet but are scheduled to start taking effect on January 1. They affect only high-income people, and the majority of their cost goes to people making over \$1 million a year. If these tax cuts become permanent, their cost over the period from 2010 to 2020 will exceed the added interest payments on the national debt we'll have to pay over that period for the Katrina efforts. That raises the question: Can policymakers consider taking off the table a couple of high-income tax cuts that haven't even taken effect yet? If the answer is no, that raises further questions about our commitment to fiscal discipline.

QUESTION: House conservatives have talked about some offsets for Katrina spending, including delaying the Medicare prescription drug benefit. If you favor offsets, what kind of an effect would these offsets have?

ROBERT REISCHAUER: First of all, this should be a time for consensus, so to the extent that the costs of Katrina are offset, it should be through a balanced package of spending restraints and tax increases.

Among the many possible ways of cutting spending, I would put delaying the Medicare prescription drug benefit close to the bottom of the list. This is a very complicated policy change that affects a great many people's lives, many of them quite vulnerable. Also, the federal government is well down the track on the implementation of the drug benefit, and to call it off now would create a lot of disruption.

ROBERT GREENSTEIN: To me, the issue isn't whether to defer the drug benefit for a year, but rather to look at whether some efficiencies could be achieved in how the drug benefit legislation is implemented. Bob Reischauer is the vice chair of MedPAC (the Medicare Payment Advisory Commission), the official advisory body to Congress on Medicare payments, which put out a report this summer identifying a number of areas where Medicare overpayments — particularly to private

managed care plans — are likely under the drug legislation and other Medicare rules. These would be the kinds of places to look.

What we need are not one-time savings, such as would be produced by delaying the drug benefit one year, but savings on an ongoing basis. We ought to be looking for a balanced package to obtain such savings. We need to put all parts of the budget on the table, look for shared sacrifices, and come up with a carefully crafted package of both spending restraints and revenue increases.

QUESTION: Do you think there is enough support in Congress to enact a broad economic stimulus package?

ROBERT GREENSTEIN: It's too early to know. One issue will be what position the White House — which has been silent until now on this matter — ends up taking. Thus far, the White House doesn't have much of a track record of opposing tax cuts that are suggested on the Hill even when it didn't propose them in the first place.

At this point, I don't see a groundswell on the Hill to pass an economic stimulus package. But the risk is that as those on the Hill who favor a package begin to put it together, and as the K Street lobbyists do their work, the sense will be created among members of Congress of both parties that a package is going to be enacted anyway, so even if you think it's bad policy you should try to get your favorite items into the package. And once members have one or two of their favorite items in the package, they then become supporters of it.

I am already seeing some early signs of this — some Senate offices, for example, that one would expect to oppose another stimulus tax cut package on principle but that instead are thinking about which items they would want to put into the package on the assumption that it's going to pass anyway. It's too early to know if this will take off, but the early warning signs are there.

QUESTION: How might Congress or the White House propose to pay for an economic stimulus package?

ROBERT REISCHAUER: It's not stimulus if it's paid for. In other words, the purpose of a stimulus package is to inject more money into the economy, so if you offset the cost of a stimulus package with spending cuts or tax increases, you'd have no net economic impact.

ROBERT GREENSTEIN: That's another reason why a stimulus package has such allure. If you're a House or a Senate member and you have a particular tax cut you'd like to get enacted, but this is difficult in the normal scheme of things (because unless you fit within this year's tax-cut reconciliation bill you're probably going to have to find an offset for it), all of a sudden here's a potential vehicle to enact tax cuts without paying for them. That's what makes a stimulus package so alluring to some people on the Hill and lobbyists on K Street.

QUESTION: Have the changes that were made in federal welfare policies in 1996 had any impact on the effectiveness of the TANF program in the aftermath of Katrina?

ROBERT GREENSTEIN: The changes that were made in '96 that have gotten the most attention since then were the ones dealing with work requirements. What has gotten less attention is the conversion of TANF from an entitlement structure to a closed, block-grant structure. I do believe we're seeing some effects of that over the last few weeks.

What we saw up until a few days ago was that some states — particularly Texas, the state with the largest number of Katrina evacuees — refused to allow destitute mothers and children from the Gulf Coast to come on to Texas' TANF program, we think in part because of concerns about the cost to the state in light of the state's limited federal TANF allocation. (This problem may ease as a result of legislation Congress has just passed.) TANF has a contingency fund, but it was designed to provide states with additional resources during recessions, not natural disasters, and it doesn't work very well even for its intended purpose. One of the things we've seen in the last few weeks is that in a disaster situation such as this, a block grant is less responsive to immediate spikes in need than the former financing structure was.

In 1996, policymakers could have combined the changes in work requirements and time limits and the like with an entitlement-type funding structure rather than converting the program to a block grant. That's not the choice they made. It's striking to see that as of last week, 110,000 evacuee households in Texas had signed up for food stamps — an entitlement program with built-in disaster provisions — but only 185 had been allowed on TANF.

QUESTION: If the Fed raises interest rates as expected today, is that a sign that there's no need for stimulus and that the biggest threat to the economy is actually an overheated economy early next year?

PETER ORSZAG: Another rate hike today would be a pretty clear indication that the Federal Reserve sees the economy as continuing to experience significant forward momentum and that the Fed's growing concern is over inflationary pressures. It also would indicate that the Fed perceives Katrina's economic effects to be small-scale and temporary, and certainly not deserving of a significant national stimulus package.

ROBERT REISCHAUER: It's worth noting that of all the institutions and companies in this country that worry about the economy, the Fed probably has the best capacity to ascertain what the economy is doing over the short run. Peter said earlier that he would prefer Alan Greenspan's judgment on the state of the economy over Dennis Hastert's. I would second that. In fact, I would take Alan's judgment on the immediate impact on our economy over the judgment of almost any person in this country.

QUESTION: Has the White House told states that it will give them extra federal funds to deal with increased applications for programs like Medicaid and TANF in the wake of Katrina? And has Congress passed any legislation on this matter?

ROBERT GREENSTEIN: Congress passed legislation last week that releases TANF contingency funds to some of the states that have been affected or have significant numbers of evacuees. The released funds are still limited, however.

The larger problems, as I see them, are emerging in areas like Medicaid. The governors on a bipartisan basis have asked for temporary, 100 percent federal funding to provide Medicaid coverage to victims of the hurricane, particularly those with limited means. The governors have asked that hurricane victims receive this coverage whether or not they fit into one of Medicaid's normal coverage categories. While normally you have to be seriously disabled, elderly, a minor child, or a parent of a minor child to qualify for Medicaid, the affected states are seeing a number of impoverished evacuees who either were in poor health before the hurricane or whose health was

affected by the hurricane and who don't fall into one of those categories. So the governors on a bipartisan basis have asked that these categorical limits be waived on a temporary basis for evacuees who are in need.

On Capitol Hill, Senators Grassley and Baucus have responded by introducing legislation that may move soon in the Senate. It's more restrictive than the governors' proposal, limiting coverage to people below the poverty line (except for children, pregnant women, and people with serious disabilities; the income limits are somewhat higher for these groups). Still, the Administration is resisting that legislation, in part because it doesn't want to ease these categorical boundaries.

I'm told that Louisiana has had to deny Medicaid coverage to hundreds of impoverished Katrina victims — many of them with health problems — because they don't fit into one of Medicaid's categorical boundaries. Louisiana has pleaded with the Department of Health and Human Services here in Washington to allow it to cover these people on a temporary basis, which is precisely what the Grassley-Baucus-Frist-Reid legislation would allow, but HHS is declining to do so. This is a serious problem that calls out for an immediate resolution.

As for FEMA, it appears to be sitting on billions of dollars Congress provided for relief. FEMA didn't tell states like Texas that they would be reimbursed with FEMA money if they enrolled evacuees in TANF or otherwise provided families with emergency income assistance. That problem has now been partially and temporarily addressed by new legislation that provides states with additional TANF resources, but FEMA has not encouraged states to provide broader income assistance to those who do not qualify for TANF and has not asked Congress to waive requirements that states pay for a portion of any emergency cash aid the provide disaster victims. Also, while FEMA is allowing money to be used to pay for trailers and to house people in hotels and motels, it's taken no action as of today to increase the number of section 8 housing vouchers on a temporary basis. As a result, we continue to witness an unseemly situation in which evacuees are living in shelters or being housed in hotels or motels even though there are vacant apartments in the same city that they could rent if given a temporary housing voucher.

QUESTION: Would providing extra federal funding for low-income programs such as Medicaid and housing vouchers make sense as a form of economic stimulus?

ROBERT REISCHAUER: Any provision of income or services to those who are affected not only would help them recover from the disaster, but also would help the local community (to the extent that the additional goods or services are purchased within the community). So that extra federal funding would serve as a targeted economic stimulus, boosting economic activity where it should be boosted.

QUESTION: Do you have any idea when Congress is likely to address extending the tax cuts or making changes to the Alternative Minimum Tax?

ROBERT GREENSTEIN: The likely vehicle for extending the dividend and capital gains tax cuts and extending current AMT relief is the tax reconciliation bill. Congress is likely to get to that in late October or early November.

QUESTION: If you were going to design a package of tax increases and spending cuts to help pay for Katrina and reduce the deficit, what kinds of things would you recommend that would pose the least disruption to the economy and also raise the kind of money you're looking for?

PETER ORSZAG: As Bob Greenstein has mentioned, the tax cuts that were enacted as part of the 2001 and 2003 packages amount to more than \$200 billion this year. That's more than enough to cover the cost of Katrina and to start the long and painful process of narrowing the nation's fiscal gap. The most obvious of the tax-cut provisions where savings could be found, at least in my opinion, are the marginal rate reductions for very high earners, the scheduled elimination of the estate tax, and other similar provisions.

ROBERT REISCHAUER: I agree with what Peter just said. Over the next decade or so we're going to have to raise taxes and restrain spending to deal with the commitments we've made for the baby boomers. We should look at whatever steps we would take to offset Katrina-related expenditures not as one-time adjustments that might expire after a few years, but rather as the first step in a longer journey.

ROBERT GREENSTEIN: If the Katrina response costs \$150-\$200 billion, its ultimate effect on the deficit after you count the added interest payments on the debt might be around \$250 billion over the next five years. If you assume for the moment that the tax cuts are extended and relief from the Alternative Minimum Tax is continued, the cost of the tax cuts over the next five years (when the added interest payments are counted) is something on the order of \$2.4 trillion. That's roughly ten times the cost of the Katrina response. So you need to keep in perspective where the big costs are coming from.

QUESTION: To what extent does there need to be more cash in the hands of people in the Gulf region? Some proposals that have been made include President Bush's \$5,000 "back to work" accounts and providing workers with an advance EITC. Does something need to be done in this area, and could these proposals address the problem?

PETER ORSZAG: Before I get to that question, I want to highlight some positive things that have been happening in terms of facilitating the flow of cash to people affected by the hurricane. From what I'm hearing, the Social Security Administration has responded extremely effectively; I'm told that you can walk into any Social Security office and receive your monthly Social Security benefit check, with no apparent problems. So that's an example of an effective and efficient delivery system.

As for whether additional assistance would be beneficial, I think the answer is yes. The Earned Income Credit may not be the most effective way to deliver it, though. Using the tax system makes most sense in the context of someone who's currently employed, but the biggest problems we face now are with people who are dislocated from jobs. Many of the other programs we have discussed, including TANF, food stamps, and Medicaid, would be better targeted to the severe cases of hardship associated with the hurricane.

ROBERT GREENSTEIN: I agree. In practical administrative terms, trying to provide hurricane victims with an advance EITC would be difficult. We've never made the advance EITC work very effectively even when the economy was running smoothly, and here you have workers who are no longer employed and employers whose records are not accessible or have been destroyed.

If we wanted to infuse some more purchasing power into the hands of the victims on a temporary basis, two mechanisms that would work better would be to increase their food stamp benefits temporarily or to raise the unemployment insurance benefit levels in the affected areas to the

national average level. There are a lot of unemployment insurance claims from people who were displaced from their jobs by the hurricane, but unemployment insurance benefit levels in Mississippi, Alabama, and Louisiana are the lowest in the country. The average unemployment insurance payment in those states equals only 50 percent of the poverty line for a family of four. You could use federal funding to raise unemployment benefits to the national average for a temporary period. Those kinds of things would be much more effective at getting cash into people's hands quickly than trying to do it through the EITC.

QUESTION: What about the \$5,000 "back to work" account?

ROBERT GREENSTEIN: We don't have very much detail on this proposal, and I imagine it would take months to set up the accounts. I think they should be evaluated in terms of their efficacy in providing education and training, particularly for people who may need to move to a different kind of job than they had before, one that requires different skills. I certainly don't think they should be seen as a way to put cash into people's hands to spend right now. Instead, they ought to be evaluated in the context of employment and training assistance.

Also, from what we've heard so far, it's unclear how widespread the \$5,000 accounts would be. Who would qualify for an account, and how would they be able to use it? There's an awful lot of information we don't have yet, and until we do, we can't do a more complete assessment of the proposal.

QUESTION: Even apart from the stimulus, we're talking about a phenomenal amount of money being spent on relief. Is there any good reason to be hopeful that it can be done in a way that doesn't involve a lot of waste?

ROBERT REISCHAUER: I think the solution to that is time. There's a tendency in situations like this to say that we need to respond yesterday. Now when it comes to providing shelter and food and immediate assistance to individuals, that's true, and we'll live with whatever waste there is. But when it comes to rebuilding — whether it's repairing infrastructure or rebuilding the city or the highways or the levees — it's terribly important to be patient and put processes in place to ensure true transparency and competitive bidding. The political imperative always is to move forward as quickly as possible, but when you do that, you're likely to spend money inefficiently.

ROBERT GREENSTEIN: There needs to be a vigorous oversight function. Regardless of whether it's Republicans or Democrats, when the same party controls both houses of Congress and the White House, oversight tends to suffer, so there needs to be some independent, inspector-general-type mechanism put in place. What Bob Reischauer just said about having competitive bidding and transparency on the contracts is also essential.

The other issue I'm increasingly concerned about is FEMA — not only its actions in the days right after the hurricane, but more recently, the lack of clear signals to states regarding what they would (and would not) get reimbursed for and the resulting wide variation among states in terms of the relief they provide to evacuees.

In my view, FEMA is trying to do too much by itself and not enough through the cabinet agencies that oversee programs run through established state and local infrastructures. After 20 or 30 years of scrutiny, the major low-income assistance programs have become quite efficient and have relatively low error rates. The Food Stamp Program's overpayment rate, once around 17 percent, is

now below 4 percent. Similarly, working through established mechanisms and delivering Section 8 housing vouchers where there is vacant housing is likely to be more efficient than building more trailers for evacuees.

So another way to ensure that relief funds are spent most wisely is to get FEMA, the Administration, and Congress to operate wherever possible through existing federal, state, and local infrastructures that have long-established oversight and quality control mechanisms built into them. The more that we operate on an ad hoc basis (which is, to some degree, how FEMA works), probably the greater the risk that funds may be wasted.

QUESTION: Could you explain again why you think something like the Grassley-Baucus approach to the Medicaid issue is better than the Administration's approach?

ROBERT GREENSTEIN: Katrina victims have been through a terrible ordeal. If you're a 60-year-old who's had a stroke or has a heart condition or diabetes and you're impoverished, and have lost everything in the hurricane, a priority should be to get you on temporary health insurance through Medicaid.

The Grassley-Baucus bill in the Senate would provide Medicaid coverage for Katrina victims, regardless of whether they fit into an existing Medicaid eligibility category, if their incomes are below the poverty line, and for children and pregnant women if their incomes are below twice the poverty line. The Administration's preferred approach appears to be to have no such legislation and to negotiate, behind the scenes, waivers with individual states. The Administration announced last week a waiver it had negotiated with Texas.

Waivers take time to negotiate. In addition, the Texas waiver, unlike the Grassley-Baucus bill, doesn't waive Medicaid's categorical restrictions.

My understanding is that while the Administration hasn't officially put out a statement opposing the Grassley-Baucus bill, it's stating privately that it prefers the state-by-state waiver route. A broader Administration legislative package might be sent to the Hill, and it might include a provision that gives the Administration more authority to negotiate waivers in which the federal government picks up 100 percent of the cost of providing Katrina victims with Medicaid coverage.

But there's no need to have a state-by-state waiver process here. You have a bipartisan bill in the Senate that's somewhat more limited than the governors' bipartisan proposal. This bill was introduced several days ago, but it is being held up in the Senate. If it passes in the Senate, it's likely the House leadership will balk at it if the Administration continues to oppose it. At the end of the day, the Administration's position is going to be pivotal.

Thank you all for joining us today.