Hurricane Katrina two years on

Part 4: The Katrina gold rush—profiteering and the Gulf Opportunity Zone

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The following is the fourth part in a series of articles on the second anniversary of the Hurricane Katrina disaster. Part one, "New Orleans—A city in social and economic distress," *was posted on August 29. Part two,* "New Orleans: a scene of devastation and blight," *was posted on August 31. Part three,* "New Orleans levees still not rebuilt," *was posted on September 1. The final part will deal with recovery and profiteering in the Mississippi Gulf Coast.*

"Hurricane Katrina: Social Consequences & Political Lessons," a pamphlet from Mehring Books that brings together articles and statements posted on the WSWS in the immediate aftermath of the Katrina disaster, is also available for purchase online.

Three days after Hurricane Katrina made landfall, while tens of thousands of New Orleans residents were suffering from hunger, exposure and lack of water—or were being herded into the convention center and other rescue sites where conditions were hellish, while hundreds of bodies remained buried in the mud and ruin of smashed homes and others were seen floating in flood-swollen waters—George W. Bush signaled in a television appearance that there would be no centrally organized or adequately funded federal program to aid hurricane victims and rebuild the areas ruined by the disaster.

As the WSWS wrote at the time, in an interview September 1 on "Good Morning America, "The president blanched when ABC interviewer Dianne Sawyer asked about a suggestion that the major oil companies be forced to cede a share of the immense windfall profits they have reaped from rising prices over the past six months to fund disaster relief. He responded by counseling the American people to 'send cash' to charitable organizations.

Once the administration, the media and the ruling elite as a whole recovered from the initial shock over the scale of the social disaster to which they had all so enormously contributed, they resolved that the Katrina catastrophe could not and would not be allowed to divert government policy from the basic course on which it had been firmly set for more than a quarter of a century. There would be no return, no matter how temporary or modest, to a policy of social reform or federal government intervention to moderate the vast levels of economic and social inequality or provide for the social needs of broad masses of the population.

In the 1930s, during a different period of social crisis, President Franklin Roosevelt responded to the Great Depression and the Dust Bowl with a program of public works projects and social reforms that, however limited and whatever their motivations, provided some improvement in conditions for the broad mass of working people. These reforms were carried out despite vicious opposition from big business and a substantial section of the American ruling class.

Today, America is saddled with a social configuration far less capable of addressing major social problems.

This underlying rot of American capitalism, which finds crude expression in the figure of Bush, was exposed first of all in the refusal to provide adequate public funding to protect the Gulf Coast from calamity in the decades leading up to the hurricane, then in the incompetence and indifference that characterized the immediate response to the disaster, and finally in the policy that was subsequently adopted as part of the so-called "recovery."

Within considerable sections of the ruling elite, the catastrophe was very quickly seen as an opportunity—not only for themselves and their cronies to cash in, but as an opportunity to implement all of the right-wing, "free-market" nostrums to which the entire American political system is now committed.

Not only did the American capitalist system prove incapable of confronting and resolving the hurricane crisis on any rational basis; the world was confronted with the grotesque spectacle of the US financial elite seizing the opportunity presented by the disaster to further enrich itself.

Two years after Hurricane Katrina, it is difficult to fully describe in the course of one article the scale of the corruption and criminality that characterized the profiteering "gold rush" to the afflicted Gulf Coast following the hurricane in August of 2005.

In the initial weeks after the disaster, a number of mainstream US news reports focused attention on scattered small-time exploitation originating in the disaster area: hotels raised rates, gas stations jacked up the price of gas, and landlords evicted tenants unlawfully.

These abuses, however, paled in comparison to the corporate and government offensive being prepared behind the scenes, which brought large and politically well-connected business operations into the devastated region and resulted in hundreds of millions of dollars in "disaster profits" being raked in virtually overnight.

Top financial firms, construction companies, consulting operations, developers, insurance companies, casinos, and a small army of speculators swarmed into the region to take advantage of tax handouts, no-bid contracts, inflated prices and the gutting of business regulations to profit handsomely from the plight of a desperate citizenry.

The atmosphere of a Wild West profiteer's paradise in the disaster area was facilitated and encouraged at every step by the actions of the federal and state agencies responsible for the reconstruction efforts.

Nearly every one of the first wave of post-hurricane reconstruction contracts was awarded purely on the basis of political connections, without even a public review of bids and proposals. Federal audits in 2006 found that as many as three-fourths of all Katrina-related contracts were awarded on a no-bid or limited competition basis.

These contracts were often fitted out with what are known as "cost-plus" provisions, which ensure that the contractor will turn a profit regardless the eventual cost of the project. The project costs plus a predetermined profit are automatically passed on to the government.

According to a report issued last year by Corpwatch, a corporate watchdog group, 90 percent of the first series of post-Katrina reconstruction contracts were awarded to firms outside Louisiana, Mississippi and Alabama. Local and less well-connected firms were simply frozen out of the process.

One example is Circle B Enterprises, which received a $287 million Federal Emergency Management Agency (FEMA) contract for manufactured housing, despite having filed for bankruptcy in 2003. The company was not licensed to construct homes in Georgia, where it is listed, and currently does not even have a web site.

Kellogg, Brown & Root (KBR), part of the Halliburton empire formerly headed by Vice President Dick Cheney, was awarded a number of contracts totaling $40 million for repair work at US Navy facilities.

According to Taxpayers for Common Sense, FEMA also awarded limited competition, cost-plus contracts for the construction of temporary housing for Katrina victims to Fluor Corporation ($221 million) and Betchel National, part of Betchel Group ($257 million).

It is worth remembering that both Fluor and Betchel Group, as well as KBR, previously had been awarded highly lucrative contracts for reconstruction projects in Iraq, in connection with which charges of nepotism, fraud and waste had already been leveled.

After Katrina victims who moved into the trailers provided by Fluor complained of frequent nosebleeds, headaches, and breathing difficulties, it emerged that the trailers were constructed with substandard materials and contained toxic levels of formaldehyde, an agent linked to cancer and respiratory illness.

Despite the hundreds of millions FEMA spent for housing relief, temporary trailers failed to reach New Orleans' Ninth Ward until June 2006.

Many of the Katrina fortunes associated with the "gold rush" were made through a process called "skimming," by which a contractor awarded with a certain sum by the government to perform a task hires a second contractor to perform the job for less than the amount provided by the government—keeping the difference as pure profit. The second contractor might then hire a third, and so on. The government body responsible for overseeing the contract might be unaware that a second contractor has been hired, or it might be a conspirator in the scheme.

A 2006 Corpwatch report cited as an example of "skimming" one $500 million contract awarded to the Ashbritt corporation for the removal of debris—a sum that amounted to $23 per cubic meter of debris. Ashbritt then contracted C&B Enterprises to do the same work for $9 per cubic meter. C&B Enterprises in turn hired Amlee Transportation to do the job for $8 per cubic meter, which then hired another company. Ultimately, a hauler from New Jersey completed the project for $3 per cubic meter.

In the case of this project, it appears that for every dollar spent by the government, 13 cents went towards the task itself, while 87 cents was skimmed off as profit by corporations and private individuals who did nothing to aid the victims of the hurricane. To put it another way, of the initial $500 million allocated to the project, $85 million went to debris removal, and $415 million was pure disaster profit.

Takings like these drew a virtual stampede of corporations to the Gulf Coast, each eager to obtain windfall profits.

Other Katrina fortunes were acquired by less subtle means. For example, a number of officials tasked with organizing reconstruction efforts were outfitted with government credit cards with a limit of $250,000 per transaction. The General Accounting Office, later renamed the Government Accountability Office, reported that an initial probe into the use of these cards found that "government credit cards in two California Navy units had been used for more than $660,000 in fraudulent or questionable purchases of personal goods ranging from jewelry to pizza," according to a September 2005 article in the *Wall Street Journal*.

The infamous phrase "Gulf Opportunity Zone" has become synonymous with the rampant profiteering and exploitation that took place in the hurricane-stricken Gulf Coast in the period following the Katrina disaster.

The Gulf Opportunity Zone itself was created by HR 4440, the Gulf Opportunity Zone Act, proposed in September 2005 and signed in December of that year by President Bush. Upon signing the bill, Bush remarked, "This important bill will help the citizens of the Gulf Coast continue to put their lives back together and rebuild their communities in the wake of the devastating hurricanes that hit the region earlier this year."

While the bill, often referred to in business circles as the "Go Zone Act," accomplished none of these things, it did have two notable features.

First, the estimated program cost as of the day Bush signed the bill was $8.6 billion for the 2006-2015 period—a tiny sum compared with the monumental destruction inflicted by the hurricane, which resulted in an estimated $200 billion in damages. By way of comparison, one recent Columbia University study estimated that the total cost of the war in Iraq could exceed $2 trillion.

The second notable feature of HR 4440 was that it essentially consisted of tax credits and other incentives to private individuals and businesses that established residences and operations inside the disaster area. The Gulf Opportunity Zone was not a program of public works, but a scheme to dole out benefits to employers who hired inside the disaster area, reimbursements to businesses that had clean-up costs, tax-exempt bonds to finance private construction efforts, and so on.

The workers actually involved in the limited government-run clean-up efforts, largely immigrants, were brutally exploited. Cleanup workers toiled long hours for low pay without overtime, often in dangerous and toxic environments, with little or no attention paid to their safety. Instead of shielding these workers, federal and state legislators were more than eager to lift regulations, slash safety and wage protections, and otherwise "free up" and "stimulate" business operations.

Congressional Republicans reacted to the disaster by proposing that reconstruction efforts be facilitated by measures limiting the right to sue for damages, eliminating the tax on capital gains, waiving environmental regulations, allowing religious groups to receive federal funds, instituting private control of public schools, establishing school vouchers, and enacting a flat tax.

Two weeks after the disaster, the Bush administration had already suspended the Davis Bacon Act in the disaster area, which requires federal contractors to pay prevailing wages, and had waived many affirmative action rules for contractors. On September 8, 2005, Bush signed a proclamation suspending the federal minimum wage for all contractors with contracts larger than $2,000 in the disaster area.

While the profiteering associated with the Katrina "recovery" was sanctioned and encouraged by the Bush administration and the president himself, it met with no significant opposition from the Democratic Party. Congressional Democrats put forward no serious proposals for a program of public works to address the crisis, and had nothing to say as federal and state administrations seized the opportunity presented by the hurricane to ram through sweeping "free market" measures about which conservative economists had been fantasizing for decades.

As it turned out, one business sector to take full advantage of the incentives in the "Go Zone" was the casino industry, which presently thrives in the disaster area.

By way of example, between December 2005, when HR 4440 was signed, and the first anniversary of the hurricane, three casinos in Biloxi, Mississippi each reported revenues on average four times as large as the average Biloxi casino revenue over the entire previous year—$780 million in revenue between the three.

New legislation following the hurricane has allowed casinos to move on land, whereas previously they could operate only on barges.