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 posed 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.*

“*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.

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, landlords unlawfully evicted tenants, and insurance companies refused to pay out.

However, this small-scale profiteering pales in comparison to the corporate and government offensive that followed, which brought the largest and politically best-connected business operations in the country into the hurricane-ravaged region, and hundreds of millions of dollars in “disaster profits” were made virtually overnight.

Top financial firms, construction companies, consulting operations, developers, insurance companies, speculators, casinos, and other “disaster profiteers” swarmed into the afflicted region to take advantage of unprecedented tax handouts, cozy relationships with local politicians, lucrative no-bid contracts, sweeping deregulation, wildly inflated prices, and a desperate citizenry.

Not only did the profit system prove incapable of confronting and resolving the hurricane crisis on any rational basis, but the world was confronted with the grotesque spectacle of the American financial elite seizing the opportunity presented by the disaster to enrich itself, heedless of the consequences.

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.

To begin with, 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 with what are known as “cost-plus” provisions, which ensure that the contractor will turn a profit regardless of the eventual cost of the project; the cost of the project plus a predetermined profit are automatically passed on to the government.

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

In one such incident, Circle B Enterprises received a $287 million 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 does not currently even have a web site.

Kellogg, Brown & Root (KBR), part of the Halliburton empire formerly controlled 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, a government watchdog group, FEMA also awarded limited competition, cost-plus contracts for the construction of temporary housing for Katrina victims to Fluor Corporation ($221 million) and Bechtel National, part of Bechtel Group ($257 million).

It is worth remembering that both Fluor and Bechtel Group, as well as KBR, had previously been awarded highly lucrative contracts for reconstruction projects in Iraq, for 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 trouble breathing, the trailers were discovered to be constructed of substandard materials and to contain extremely 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 huge Katrina fortunes associated with the “gold rush” were made through a process called “skimming,” by which a contractor awarded with a certain sum to perform some task by the government then hires a second contractor to perform the task for less than the sum awarded 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 can be unaware that a second contractor has been hired, or can be a conspirator in this 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 haulage contractor from New Jersey completed the project for $3 per cubic meter.

These numbers suggest that in the case of this particular disaster removal project, 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 that 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 rake in windfall profits on this scale.

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 had 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 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 it was $8.6 billion between 2006 and 2015—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 of 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.

In practice, the workers actually involved in the limited government-run clean-up efforts, largely immigrants, were consistently 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 in the disaster area.

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 ownership 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 pay prevailing wages, and he 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.

In general, federal and state administrations seized the opportunity 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; they could previously only operate on barges.