

**THE COMMERCE AND CONSUMER PROTECTION
IMPLICATIONS OF HURRICANE KATRINA**

HEARING
BEFORE THE
SUBCOMMITTEE ON
COMMERCE, TRADE, AND CONSUMER PROTECTION
OF THE
COMMITTEE ON ENERGY AND
COMMERCE
HOUSE OF REPRESENTATIVES
ONE HUNDRED NINTH CONGRESS
FIRST SESSION

SEPTEMBER 22, 2005

Serial No. 109-74

Printed for the use of the Committee on Energy and Commerce



Available via the World Wide Web: <http://www.access.gpo.gov/congress/house>

U.S. GOVERNMENT PRINTING OFFICE

24-249PDF

WASHINGTON : 2005

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON ENERGY AND COMMERCE

JOE BARTON, Texas, *Chairman*

RALPH M. HALL, Texas
MICHAEL BILIRAKIS, Florida
Vice Chairman
FRED UPTON, Michigan
CLIFF STEARNS, Florida
PAUL E. GILLMOR, Ohio
NATHAN DEAL, Georgia
ED WHITFIELD, Kentucky
CHARLIE NORWOOD, Georgia
BARBARA CUBIN, Wyoming
JOHN SHIMKUS, Illinois
HEATHER WILSON, New Mexico
JOHN B. SHADEGG, Arizona
CHARLES W. "CHIP" PICKERING,
Mississippi, *Vice Chairman*
VITO FOSSELLA, New York
ROY BLUNT, Missouri
STEVE BUYER, Indiana
GEORGE RADANOVICH, California
CHARLES F. BASS, New Hampshire
JOSEPH R. PITTS, Pennsylvania
MARY BONO, California
GREG WALDEN, Oregon
LEE TERRY, Nebraska
MIKE FERGUSON, New Jersey
MIKE ROGERS, Michigan
C.L. "BUTCH" OTTER, Idaho
SUE MYRICK, North Carolina
JOHN SULLIVAN, Oklahoma
TIM MURPHY, Pennsylvania
MICHAEL C. BURGESS, Texas
MARSHA BLACKBURN, Tennessee

JOHN D. DINGELL, Michigan
Ranking Member
HENRY A. WAXMAN, California
EDWARD J. MARKEY, Massachusetts
RICK BOUCHER, Virginia
EDOLPHUS TOWNS, New York
FRANK PALLONE, Jr., New Jersey
SHERROD BROWN, Ohio
BART GORDON, Tennessee
BOBBY L. RUSH, Illinois
ANNA G. ESHOO, California
BART STUPAK, Michigan
ELIOT L. ENGEL, New York
ALBERT R. WYNN, Maryland
GENE GREEN, Texas
TED STRICKLAND, Ohio
DIANA DEGETTE, Colorado
LOIS CAPPS, California
MIKE DOYLE, Pennsylvania
TOM ALLEN, Maine
JIM DAVIS, Florida
JAN SCHAKOWSKY, Illinois
HILDA L. SOLIS, California
CHARLES A. GONZALEZ, Texas
JAY INSLEE, Washington
TAMMY BALDWIN, Wisconsin
MIKE ROSS, Arkansas

BUD ALBRIGHT, *Staff Director*

DAVID CAVICKE, *Deputy Staff Director and General Counsel*
REID P.F. STUNTZ, *Minority Staff Director and Chief Counsel*

SUBCOMMITTEE ON COMMERCE, TRADE, AND CONSUMER PROTECTION

CLIFF STEARNS, Florida, *Chairman*

FRED UPTON, Michigan
NATHAN DEAL, Georgia
BARBARA CUBIN, Wyoming
GEORGE RADANOVICH, California
CHARLES F. BASS, New Hampshire
JOSEPH R. PITTS, Pennsylvania
MARY BONO, California
LEE TERRY, Nebraska
MIKE FERGUSON, New Jersey
MIKE ROGERS, Michigan
C.L. "BUTCH" OTTER, Idaho
SUE MYRICK, North Carolina
TIM MURPHY, Pennsylvania
MARSHA BLACKBURN, Tennessee
JOE BARTON, Texas,
(Ex Officio)

JAN SCHAKOWSKY, Illinois
Ranking Member
MIKE ROSS, Arkansas
EDWARD J. MARKEY, Massachusetts
EDOLPHUS TOWNS, New York
SHERROD BROWN, Ohio
BOBBY L. RUSH, Illinois
GENE GREEN, Texas
TED STRICKLAND, Ohio
DIANA DEGETTE, Colorado
JIM DAVIS, Florida
CHARLES A. GONZALEZ, Texas
TAMMY BALDWIN, Wisconsin
JOHN D. DINGELL, Michigan,
(Ex Officio)

CONTENTS

	Page
Testimony of:	
Dow, Roger J., President and CEO, Travel Industry Association	29
Hall, Keith, Chief Economist, U.S. Department of Commerce	21
Huether, David M., Chief Economist, National Association of Manufactur- ers	24
Niskanen, William A., Chairman, CATO Institute	34
Seesel, John H., Associate General Counsel for Energy, Federal Trade Commission	10

THE COMMERCE AND CONSUMER PROTECTION IMPLICATIONS OF HURRICANE KATRINA

THURSDAY, SEPTEMBER 22, 2005

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ENERGY AND COMMERCE,
SUBCOMMITTEE ON COMMERCE, TRADE,
AND CONSUMER PROTECTION,
Washington, DC.

The subcommittee met, pursuant to notice, at 11:10 a.m., in room 2322 of the Rayburn House Office Building, Hon. Cliff Stearns (chairman) presiding.

Members present: Representatives Stearns, Radanovich, Bass, Otter, Barton (ex officio), Schakowsky, and Ross.

Staff present: David Cavicke, general counsel; Chris Leahy, policy coordinator; Shannon Jacquot, majority counsel; Will Carty, professional staff; Brian McCullough, professional staff; Lisa Miller, deputy communications director; Kevin Schweers, communications director; David Nelson, senior minority investigator; Jonathan Brater, staff assistant; and Billy Harvard, clerk.

Mr. STEARNS. The subcommittee will come to order.

As the country begins to come to terms with the scope of the devastation caused by Hurricane Katrina and its immeasurable human toll, our fellow Americans on the Gulf Coast are again facing another potential natural disaster as we speak. We can only hope that our fellow citizens in the path of Hurricane Rita will be spared disaster this time. All of the people so horribly affected by Katrina, as well as those who are working hard to lead the country through this challenging time, remain in our thoughts and, of course, in our prayers.

The devastation caused by Hurricane Katrina and, for that matter, any natural disaster on this scale, is hard to comprehend for most of us. My home State of Florida has been through some terrible hurricanes, and mainly as a function of its geography, will continue to be very vulnerable. I have seen firsthand how deeply these catastrophic events affect people, families, and the local and regional economies. I also know how important it is to do what it takes to understand the economic consequences of these disasters, so we can better protect those affected and get them back on their feet again in the wake of such storms.

To help us understand in more detail the broader macroeconomic impact of Katrina, the subcommittee has an opportunity today to hear from several sectors that have been particularly hard hit by

the direct and indirect effect of Katrina, including manufacturing, travel, and tourism, and import-export trade activity. According to Hank McKinnell, chairman of the Business Roundtable, and chief executive of Pfizer, Inc., the storm will have “a catastrophic regional effect, a significant but not catastrophic national effect.” My colleagues, it is my hope that today’s hearing will initiate a closer examination of the longer term consequences of the economic disruption caused by the hurricane, where the most significant vulnerabilities are in each sector and region, and how the Congress can help better protect these sectors in the event of future hurricanes and natural phenomena in the region.

In addition to Katrina’s economic impact, the subcommittee will examine today’s issues related directly to the human cost of Katrina. We will consider both the immediate victims in the Gulf region, as well as the average consumer who feels the pinch at the pump, or who may fall prey to the fraudsters hoping to capitalize on this tragedy by exploiting the American spirit to help others. These vulnerabilities, though economic, are also part of what we see as the human toll. And regardless of context, any attempt to victimize folks when they are most vulnerable is abhorrent, and deserves swift justice and strong sanctions. Today, we will learn what is the arsenal to prosecute these acts, and what we may need on a national level to make that prosecution work. Fraudulent and predatory activity, like price gouging and fraud, whether at the pump, in the store, or online marketplace, not only creates additional financial burdens to the customer, but it also stresses the health of the service economy’s businesses and industries that help support our greater community.

Specifically regarding gas prices, of course I do not think taking advantage of consumers in times of crisis is reprehensible, but I would hope that an efficient market, not price controls, would quickly beat down the bad actors. Prices are indicators to consumers to buy, or modify their behavior, or go elsewhere for a product. However, if that is not the case or is not possible, the inquiry should then focus on factors like collusion in the marketplace. I commend the Federal Trade Commission for initiating an investigation into gasoline price gouging, and I look forward to hearing more about that as well, as more detail about its recent report on gas price collusion. Americans are raising very justified questions about the prices at the pump, and these questions, my colleagues, demand answers. I also would suggest that we look at the prices of other goods and services. Again, we must determine if current law, including antifraud and contract law, provides adequate consumer protection in a crisis, all in addition to the positive effects of a free market’s natural tendency toward efficiency.

My colleagues, it is also imperative that we better protect consumers from fraudulent and other egregious behavior designed to steal from those who want to give aid and comfort to the victims of these tragedies. Charity fraud is one of the things that belongs with the lowest of the low, and should be dealt with in harsh terms in this life and thereafter. The FBI recently reported there were 4,000 Katrina-related charity websites, a large number of which are suspected to be fraudulent. Reports also suggest that fraudulent telephone solicitation remains a very serious problem. I am

very interested to hear more about what we can do, and the Federal Trade Commission's approach to secure the charitable giving network, both on and offline from these criminals. I would like to commend my colleague Mr. Bass' great work in his area, and look forward to learning more about his bill, H.R. 3675, the "American Spirit Fraud Prevention Act." A very large part of our national relief effort comes from the hearts of our fellow Americans, who are willing to help, to care, and to comfort. Charity fraud undermines an American tradition of giving to those most in need, and must be met with severe penalties.

I would like to thank our distinguished panel of witnesses for joining us this morning, and I look forward to their testimony, and I thank you. And with that, I ask the ranking member, Ms. Schakowsky, for her opening statement.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman, for convening today's hearing on Hurricane Katrina's effect on commerce and consumers. I appreciate the panel that is assembled before us, and look forward to their testimony.

The immediate impact on consumers is obvious, given that adequate food, shelter, water, and fuel are still lacking for many of the residents of the Gulf Coast. Gas prices are projected to reach as high as \$5 per gallon, and heating prices are projected to be as high as an additional 71 percent this winter, meaning families across the country, not just those evacuated, are going to be breaking the bank just to get to work and heat their homes this winter.

With Hurricane Rita ready to ravage that region once again, those natural disasters, compounded with the shaky fiscal state of our country, could turn into one of the greatest consumer, human, and economic catastrophes our country has seen. The response, to the average American, to Katrina is as overwhelming as the efforts of the Administration have been underwhelming. We all have watched with shock and shame, not shock and awe, as the Federal Government failed in its primary mission: providing for the safety and security of the public.

As American consumers open their hearts, their homes, and their pocketbooks, this Administration stayed the course of giving tax cuts to the rich, and providing unlimited and unsupervised Federal dollars to big contractors. The same companies that have so profited handsomely—that have profited so handsomely from the war in Iraq are poised to gouge the American taxpayer once more in the rebuilding of the Gulf Coast with the Administration's help.

Don't misunderstand me. As a country, we must move swiftly, with great compassion, to stabilize and rebuild the area. We must protect and nurture the families devastated by this disaster. However, we cannot pretend that this is business as usual, and that we can give more tax cuts to the wealthy, when the break of the levees revealed the unmet need, both old and new, in our country. As faulty as the logic was that we should cut taxes for millionaires while fighting a war that costs hundreds of billions of dollars, it is morally irresponsible to cut them even further, when we are facing the rebuilding of one of our vital coastal regions.

Once again, everyone except for millionaires are being asked to sacrifice. The raids on the Treasury to swell the coffers of Halliburton and other large contractors in Iraq are bad enough, but

what the Administration has done in this crisis is to further fatten those firms, and that is even worse. If we are going to talk about cutting pork, trimming the fat should start with them. Instead, what we get from a large portion of the Republican majority, the Republican study committee, is the cruelest document I have ever seen, that will most heavily take from the poor once again, and prevent them from long-term, even short-term recovery.

Instead, the first response of the Administration was to spend Davis-Bacon and cut the wages of workers that face the dangers of cleaning up toxins. Reducing wages does not guarantee lower costs of rebuilding, only higher profits for contractors. Now, we are told that those contractors should have no liability if they fail to adequately engineer and construct the infrastructure they are being paid enormous sums to rebuild. Who is responsible if they cut corners to pad their pockets? Will they charge double for materials, like they did with oil in Iraq?

On energy. We have already seen gas prices soar, as energy profits rise, and as this committee and this Congress passed an Energy Bill that will only provide Big Oil with more subsidies, the loss of refinery and offshore production capacity has increased the burden on American consumers even more. Heating bills this winter may truly break the backs of many of our constituents. If the refineries off the Texas coast are hit, as it looks inevitable, and six have already closed as a precaution, my constituents will have a nearly impossible feat of surviving the heating costs of a Chicago winter. After Katrina, People's Gas in Chicago estimated that families would have to pay \$1,475 for heating this winter. That is a 39 percent increase.

Again, the U.S. Energy Information Administration predicts that we could see increases of 71 percent. What is it going to be after Rita? We saw in the California electricity crisis how these energy firms express their patriotism by soaking consumers to increase profits and bonuses. We must assure that this disaster does not provide coverage for another Enron-like bilking of the American people that would result in serious harm to consumers and damage to our economy.

I ask the Administration, where are your protections for American consumers? Why do we hear nothing of emergency measures to control heating prices this winter? Where are the proposals to repeal tax cuts for millionaires, to help our country to respond to a crisis, as it should? Why aren't we expanding the powers of the FTC to pursue price gouging by Big Oil? Why aren't we considering Mr. Waxman's bill to create an independent antifraud commission to present waste, fraud, and abuse in relief and recovery contracts? Where is the announcement that the Justice Department is sending a meaningful task force to Louisiana and its sister States to provide assistance to the local authorities in keeping down gouging, insurance company renegeing, and all manner of fraud as the Federal dollars are dispensed?

Do we need pictures of suffering and death from the lack of heat to add to the pictures of flooding before this Administration will act as responsible and moral leaders? I fear that if the Administration does not soon realize that there is a serious consumer and energy crisis on our hands, that the welfare of all Americans must be their

primary concern, and we will all feel the effects of a devastated economy. It is up to us in this subcommittee, in this committee, and in this Congress to respond to this crying need.

Thank you, Mr. Chairman.

Mr. STEARNS. I thank the gentlelady, and for my colleagues, we can see why the gentlelady from Illinois is such a great consumer advocate, from her opening statement.

I would remind all my colleagues, as—that a lot of tax cuts went for the poorest people, helping out with their IRAs and Roth accounts. They don't have penalty withdrawal, and of course, the bill we just passed yesterday was particularly helpful and concentrated for tax reduction for those who are poorest.

But the Federal Trade Commission can take note that the gentlelady is giving you a full plate here, to add to your already long list of things you could do, and so we appreciate her comments.

Is there anything wishing to—opening—yes. Mr. Ross.

Mr. ROSS. Thank you, Mr. Chairman, and Ranking Member Schakowsky, for holding this important hearing today to discuss the economic implications of Hurricane Katrina, and what is needed to protect consumers from deception and fraud during this time.

The devastation from Hurricane Katrina, and the impact it has had on lives was unprecedented, and will take a collective effort from both the government and the private sector to repair. My home State of Arkansas has received the highest number of evacuees from the affected areas outside of Texas, and we are doing all we can to help those in need.

We received some 5,000 additional evacuees from Louisiana, who were being housed in Houston just this week, as Texas prepares for Hurricane Rita. This may not be the place, but every place I go, I am sharing this, until we finally get someone's attention. You know, we come to Washington, and we approve all this money to help our hurricane victims, and then I go home to a shelter, and constituents from New Orleans, who were at the Superdome, who are now at a shelter in my district, share with me a letter from FEMA.

This is one of many. This one is addressed to Ms. Debra L. Bowers, #1 Convention Center Plaza, in care of the shelter, Pine Bluff, Arkansas, like someone lives in a convention center. And it starts off: "Based on the information you provided during the application process, you are not currently eligible for assistance under FEMA's Individuals and Households Program."

They write the letter to Ms. Bowers in care of the shelter at the convention center, and then go on to tell her she doesn't qualify for any help, and then, they have the nerve to go on to say next sentence: "You may make an application to the Small Business Administration for a loan." Ms. Bowers does not need a loan. Ms. Bowers does not have anything except the clothes on her back. She is from New Orleans. She was at the Superdome. She has lived now for a month at the convention center in Pine Bluff.

Ms. SCHAKOWSKY. Will the gentleman yield?

Mr. ROSS. Sure.

Ms. SCHAKOWSKY. Could I ask unanimous consent that that letter be submitted as part of the record?

Mr. STEARNS. By unanimous consent, so ordered.
[The information referred to follows:]



FEMA

Michael D. Brown
Under Secretary
Emergency Preparedness and Response

National Processing Service Center
P.O. Box 10055
Hyattsville, MD 20782-7055

FEMA Application No: 929415788

MS DEBRA L. BOWERS
1 CONVENTION CENTER PLZ
PINE BLUFF, AR 71601-5067

Dear Ms. Bowers:

Based on the information you provided during the application process, you are not currently eligible for assistance under FEMA's Individuals and Households Program (IHP).

You may make an application to the Small Business Administration (SBA) for a loan. SBA loans are available to homeowners and renters for restoring or replacing disaster damaged real and personal property. You can request an application from the SBA over the telephone by calling 1-800-659-2955. In addition, you can pick up an SBA application at a Disaster Recovery Center. If you are not sure where the nearest center is located, please call the FEMA Disaster Helpline.

SBA periodically conducts workshops to help with the process of completing the application forms. Please check the local paper for the time and place or call the SBA for more information. You can also speak to a SBA loan officer over the telephone if you have any specific questions about your application.

If you have insurance and you have not already contacted your insurance agent, please do this as soon as possible. Because insurance proceeds are generally more comprehensive than Federal disaster assistance, these benefits are usually the best means of addressing your disaster-related needs.

If you have any questions, if you need housing right away and cannot find a place to stay, or if you would like more detailed information on available assistance programs, please call the FEMA Disaster Helpline at 1-800-621-FEMA (3362) (hearing/speech impaired ONLY call 1-800-462-7585). We want to help in any way we can.

Sincerely,

Individuals and Households Program Officer



300
Kathleen Babineaux Blanco
Governor
State of Louisiana

09/15/2005

Disaster No: 1603

SBA

Mr. ROSS. Additionally, the economic impact is being felt throughout the nation. As we continue to address the needs of those affected, we must examine the hurricane's effect on our overall economy, and what policies or initiatives are needed to restore it. One of the areas I am particularly concerned about is the disruption in shipping that has resulted from the damage to the Port of New Orleans and other ports that commerce depends upon along the Mississippi River, and I hope the Federal Trade Commission representatives who are here, as well as the U.S. Department of Commerce representatives who are here, will listen to what I am about to say.

I was in a meeting just a few days ago with my colleagues. The Port of New Orleans and its neighbors just upriver, the Port of South Louisiana and the Port of Baton Rouge, are unique, because they connect with the Nation's most extensive and heavily used inland waterway system for the transport of bulk materials, including those in Arkansas. Due to the disruption in operations at these ports, primary products that are transferred between ships and barges have been halted, and have created a backup of barges from Illinois to Louisiana. Significant losses in agriculture products, our shipping costs and transport capacity shortages have occurred as a result. Grain bins from Illinois south are all full. Barges are full and parked up and down the Mississippi River. Most towns have as many as 50 barges parked in full.

And just this week in Arkansas, we were forced to dump 200,000 bushels of corn on the ground. Export markets are vital to America's agriculture, and the Mississippi River transports the vast majority of these products. Therefore, it is—let me repeat that. The Mississippi River transports the vast majority of these products, therefore, it is the lifeline to all those who depend on it for their survival, and for those who depend on us for their food and fibers. So I hope that the representatives here today from the Department of Commerce, or the Federal Trade Commission, will share with anyone they can get to listen. I talked to Karl Rove about this yesterday. I mean, anyone that will listen, I am talking to about it, because our farmers are at a critical juncture, as we try to deal with getting the Port of New Orleans back up and running.

And with that, Mr. Chairman, I know I have gone over my time. I thank you for allowing me to do that, and I yield back the minute and 35 seconds I no longer have.

Mr. STEARNS. Thank you. I thank the gentleman. The gentleman from New Hampshire, Mr. Bass.

Mr. BASS. Thank you very much, Mr. Chairman, and this is a timely and important subject to be talking about. Unfortunately, perhaps, a little bit too timely.

I note that the coverage on television of Rita crossing the Gulf of Mexico has been quite different from that of Katrina, in that they talked a lot, during the Katrina process, of where—whether it would be—what—how strong it would be, where its track was going to be. But now, they—and what was going on with evacuations and so forth, but not so much—now, the discussion is primarily about what is going to happen to oil refineries, what is going to happen to drilling platforms, how effective the evacuation is going, and it really—the lessons that have been learned from

Katrina really are being applied now, and this hearing just couldn't be a better opportunity to explore some of those issues.

Now, unfortunately, a lot of what has gone on the last 2 weeks is reminiscent of what happened after, I guess I should say fortunately, after 9/11, in that every town and city and community and church and so forth have opened up their hearts and their wallets and everything to help, and it really makes us feel good about being Americans. But there is, always, this underlying problem of fraud and deception. Even in my home State of New Hampshire, the Attorney General has issued a number of warnings to New Hampshire's citizens about fraudulent schemes to raise money over the telephone. Every good—sounds good, but the money disappears.

Now, after 9/11, I introduced legislation, the American Spirit Fraud Protection Act, which gave the FTC enhanced fining capabilities and other things, in order to prevent the kind of fraud that is always potentially—may occur, as a result of a national disaster such as this. I am hopeful that we can move this legislation. It, by the way, passed the House in the last Congress. It did not pass the Senate. We are working on a plan to get this legislation through the Senate, should this committee see fit to send this legislation to the floor again, and pass it. I think it is, again, either fortunately or unfortunately, timely, to move this legislation, and I hope we do so.

I am looking forward to hearing from our witnesses today, and I want to thank the chairman for holding this hearing. I yield back.

Mr. STEARNS. And I thank the gentleman for his good work on that bill, and I had mentioned earlier, in my opening statement, your efforts in that regard, and thank you for it.

[Additional statements submitted for the record follow:]

PREPARED STATEMENT OF HON. BARBARA CUBIN, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF WYOMING

Thank you, Mr. Chairman.

We meet today to address the aftereffects of perhaps the most devastating natural disaster our nation has seen. I am sure all of us have witnessed in various ways the untold suffering and heartbreak caused by Hurricane Katrina.

As our panel today will point out, the storm also left a regional economy in shambles, causing residential and business damages amounting to tens of billions of dollars. This destruction of capital is compounded by the storm's negative impact on energy production, massive displacement of nowunemployed individuals, and disruption of commerce in the nation's busiest inland waterway.

The nation as a whole will feel the less dramatic but meaningful effects of higher gasoline prices and slowed economic growth.

As if the sheer destruction of the storm were not enough, there are also those who would take advantage of the vulnerable in times of turmoil. We saw it on the streets of New Orleans immediately following the storm. I fear we will continue to experience it now in the form of fraudulent business activities like price gouging and phony charitable organizations seeking to take advantage of the generosity of the American people.

As the committee of jurisdiction over commerce and consumer protection, we are in a unique position to assess Katrina's economic effects as well as investigate opportunities for fraud in the wake of the disaster.

I am sure our panel today will shed light on the nature and extent of Katrina's economic damage, as well as the role of the federal government in fostering economic recovery.

Mr. Chairman, I yield back the balance of my time.

PREPARED STATEMENT OF HON. TIM MURPHY, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF PENNSYLVANIA

Thank you Mr. Chairman for scheduling this important hearing on the economic and consumer implications of Hurricane Katrina. After a thorough 8-hour Full Committee hearing two weeks ago, it is now important for this Committee to exercise its jurisdiction and examine at the subcommittee level the various aspects of this catastrophe. The Subcommittee on Health held a hearing this morning and I note that next week the Subcommittees on Environment and Hazardous Materials and Telecommunications and the Internet will also examine the implications of this storm from their subcommittees' perspective.

I look forward to hearing from our witnesses today. The economy of Louisiana and Mississippi will clearly suffer devastating effects from this storm for some time. We already know about the havoc wreaked on the energy industry, but there are many other large and small manufacturers, distributors, suppliers, retailers, restaurants and other businesses that were wiped out and may or may not recover in their previous form. We will hear today from the travel and tourism industry, a leading sector of the economy in New Orleans and the Mississippi coast. The trickle down effect to all levels of the economy from the destruction of businesses and jobs is frightening. This economic slow down will be helped by the boost to the economy from rebuilding, but we must ensure that those jobs and dollars are distributed appropriately. I am also very interested on the effect of this storm on the national economy.

Damage to the Port of New Orleans and to ports along the Mississippi will also be costly. I hope that we will examine today the cost to the economy of shipping disruptions.

From a consumer standpoint, we all suspect that price gouging has taken place after the storm, at the gas pump. There is no federal price gouging law, however, so I look forward to hearing what our government is doing to address this issue. We also face the issue that Mr. Bass has worked to reduce, that of charity fraud. It is a sorry truth that there are always going to be some people who will attempt to profit from the misfortune of others. If someone gives their hard earned dollars to help Katrina victims, they should be assured that this is where the money is going. The penalties for this practice must be greatly increased.

Other consumer issues are bound to pop up as the area rebuilds, such as the concern that flood-damaged vehicles could be superficially refurbished and passed off to unwitting consumers. These vehicles can be a threat to the safety of the new owners. Or a possible influx of dishonest contractors taking people's money for work that will not be performed, or performed in a shoddy manner.

Thank you again, Mr. Chairman, for scheduling this hearing. I look forward to hearing from all of the witnesses today.

Mr. STEARNS. We have our first and only panel. Our witnesses: Mr. John Seesel, who is the Associate General Counsel for Energy at the Federal Trade Commission; Dr. Keith Hall, Chief Economist, U.S. Department of Commerce; and Mr. David Huether, Chief Economist, National Association of Manufacturers; Mr. Roger Dow, President and CEO of Travel Industry Association; and Dr. William Niskanen, Chairman of the Cato Institute.

We probably could start on these. We have a vote shortly, and I believe just—if we have a few moments, we will just continue forward, and have a 15-minute vote, so I will have you start with your opening statement.

**STATEMENTS OF JOHN H. SEESEL, ASSOCIATE GENERAL
COUNSEL FOR ENERGY, FEDERAL TRADE COMMISSION;
KEITH HALL, CHIEF ECONOMIST, U.S. DEPARTMENT OF
COMMERCE; DAVID M. HUETHER, CHIEF ECONOMIST, NA-
TIONAL ASSOCIATION OF MANUFACTURERS; ROGER J. DOW,
PRESIDENT AND CEO, TRAVEL INDUSTRY ASSOCIATION;
AND WILLIAM A. NISKANEN, CHAIRMAN, CATO INSTITUTE**

Mr. SEESEL. Good morning, Mr. Chairman and members of the subcommittee. I am John Seesel, the Associate General Counsel for

Energy of the Federal Trade Commission, and I am pleased to have this opportunity to describe for you the many actions that the FTC has taken to protect consumers in the aftermath of Hurricane Katrina.

I want to reemphasize what I told the House Energy and Commerce Committee 2 weeks ago and the Senate Commerce Committee yesterday. The FTC fully shares in the terrible shock and sadness that the Nation has experienced since Hurricane Katrina wrought such tragic devastation on the Gulf Coast region, and we all know that the affected areas face a long road to recovery.

The FTC applauds this subcommittee for taking the opportunity to address Katrina's impact on commerce and consumers. I can assure you that the FTC is acutely aware of the pain that consumers have suffered, not only from the high gasoline prices that we have all experienced recently, but also from the potential for a disaster such as Katrina to spawn a host of efforts to commit fraud upon the victims of the devastation. The FTC has taken numerous actions to protect and educate consumers in the wake of the hurricane, and will proceed aggressively against any violations of the consumer protection and antitrust laws that it enforces.

As detailed in the FTC's written testimony, the agency moved forward quickly after the hurricane hit, when it was clear that many victims of the storm would need assistance and protection from fraud and deception. Our Office of Consumer and Business Education responded immediately to deal with a number of pressing consumer issues, including the financial challenges the displaced Katrina victims would face due to separation from their financial records, the heightened risk of identity theft, and the need to be alert for scams.

Not only have educational materials addressing these problems, now both in English and in Spanish, been on the FTC's website for more than 2 weeks, but we have asked the Postal Service, FEMA, and the Red Cross to help distribute these materials to places where displaced persons will see them. We have also sent scripts of public service announcements to radio stations in the Gulf Coast region to alert consumers to possible home repair scams in the wake of Katrina.

The FTC is working actively as a member of the Hurricane Katrina Fraud Taskforce, which also includes the U.S. Department of Justice, the FBI, the Postal Inspector's Office, and the Executive Office for U.S. Attorneys. Under Attorney General Gonzalez's direction, this taskforce is expected to move swiftly and effectively against cases of fraud perpetrated upon the victims of Katrina. The FTC's huge Consumer Sentinel data base of fraud and identity theft complaints will play an instrumental role in the taskforce's work.

As you may know, Consumer Sentinel is an online, fully searchable fraud complaint data base used by over 1,400 local, State, and Federal law enforcement partners, and already populated with complaints about possible Katrina frauds. To make it easy for our partners to find the complaints, we have created reports breaking down Katrina-related complaints. The reports that I am showing you on the screen to your right are models toward which we are working. All Katrina-related complaints are available to law enforce-

ers through the reports currently on Consumer Sentinel. The reports show Katrina-related complaints in different formats. We are showing you the actual interface and reports, but because the data are confidential, you are seeing the reports in encrypted form.

For example, on the subject State report, law enforcers can see complaints about companies and individuals who are located in their State. If law enforcement—enforcers want to see complaints from consumers in their States, they can click on consumer state. Clicking on top subject shows a list of the entities about which we received the most Katrina-related complaints. This is an easy one stop shop for law enforcers who want to immediately investigate frauds exploiting the victims of public—or public concern in the aftermath of this disaster.

In addition to participating in the taskforce, we are adding referrals that we receive from Better Business Bureau offices, the FBI, and other sources, to our Consumer Sentinel tracking system for post-Katrina frauds. Anyone accessing Sentinel will have access to our complete data base of Katrina-related complaints, easing their use of the system, and ensuring that users see all relevant information. Moreover, FTC attorneys and investigators are analyzing complaint data every day, and are prepared to file civil law enforcement actions to shut scams down or, in appropriate circumstances, to refer cases to criminal enforcement authorities for prosecution.

I should add that we at the FTC, like the whole country, are hoping and praying that Hurricane Rita will not be a repeat of Katrina, but in the event that Rita results in similar consumer problems, we will redouble our efforts to deal with them.

Beyond these varied actions to protect consumers following Katrina, the other focus of the consumers' written testimony today is the FTC's commitment to maintaining competitive markets in refined petroleum products. The FTC has pursued a three-pronged approach to the petroleum industry, consisting of vigorous law enforcement against anticompetitive business conduct and mergers, careful study of various developments with competitive implications for the petroleum industry, and an ongoing project to monitor gasoline and diesel prices to detect unusual price movements.

Before I continue, I want to address briefly a topic that has loomed large in the public consciousness and in the minds of many in Congress in recent weeks, the subject of gasoline price manipulation and gasoline price gouging. The FTC already has launched an investigation, pursuant to Section 1809 of the recently enacted Energy Policy Act, to search for evidence of gasoline price manipulation and expeditiously prepare a report to Congress on its findings. Despite the complexities of dealing with the concept of price gouging discussed in the FTC's written testimony, there should be no doubt that the agency will take aggressive enforcement action against any conduct unearthed in its Section 1809 investigation that violates the Federal antitrust laws.

In aid of its extensive law enforcement work, the FTC also conducts careful research on key competitive issues in the petroleum industry. I especially commend our recent report on gasoline price changes to the subcommittee's attention. The report sets forth in detail the numerous supply, demand, and competitive factors that influence gasoline prices or cause gasoline price spikes. Another as-

pect of our approach is a continuous effort by our staff to identify unusual gasoline and diesel price movements. Our economists monitor daily pricing data from 20 wholesale regions, and nearly 360 retail areas across the Nation. If the statistical model that they apply detects any unusual price movement that cannot be explained by a refinery outage, a pipeline break, or another business-related cause, the FTC staff, in consultation with other Federal and State officials, will examine whether a law violation has been committed.

In view of the escalating prices that consumers have been paying for gasoline and other energy products, we will examine the information that we receive about pricing to determine whether there is a basis for legal action under the anti-collusion and antimonopoly laws that the FTC enforces. For those complaints that do not set forth a violation of Federal law, State attorneys general appear to be going forward—

Mr. STEARNS. Just have you sum up.

Mr. SEESEL. [continuing] with multi-state—pardon me, Mr.—

Mr. STEARNS. Just have you sum up, if you could.

Mr. SEESEL. Yes, thank you, Mr. Chairman.

The energy industry has been a centerpiece of FTC enforcement for decades, and the Commission will give—and the Commission intends to make this a continuing centerpiece of our work, and I thank the subcommittee for this opportunity.

[The prepared statement of John H. Seesel follows:]

PREPARED STATEMENT OF JOHN H. SEESEL, ASSOCIATE GENERAL COUNSEL FOR
ENERGY, FEDERAL TRADE COMMISSION

I. INTRODUCTION

Mr. Chairman and members of the Subcommittee, I am John Seesel, the Federal Trade Commission's Associate General Counsel for Energy. I am pleased to appear before you to present the Commission's testimony on FTC initiatives to protect consumers in the aftermath of Hurricane Katrina.¹ Because rising prices have been one of the most visible effects of the interruption of gasoline supply caused by Katrina, I will also comment on our efforts to protect competitive markets in the production, distribution, and sale of gasoline.

Our hearts go out to those who have been harmed or dislocated by Katrina. It taxes everyone's credulity that, even in the midst of tragedy, some people will try to take advantage of their fellow citizens for pecuniary gain. People whose houses have been destroyed or rendered uninhabitable, whose paychecks have been interrupted, or who have lost access to bank accounts are especially vulnerable to fraud and deception designed to separate them from what little they may have left. The Commission has moved aggressively, on its own as well as in cooperation with state and other federal law enforcement authorities, to help victims avoid fraudulent and deceptive activities, and to rebuild their financial futures.

Katrina is expected to have widespread effects throughout the economy. The Congressional Budget Office tentatively estimated that Katrina could reduce real gross domestic product growth in the second half of this year by one-half to one percentage point and could reduce employment by about 400,000 through the end of the year.² Higher energy prices will be a burden on other sectors of the economy and will affect consumers not only directly in the gasoline and other energy products that they purchase, but also indirectly in raising prices of inputs into other goods and services. In addition, Katrina damaged many other industries and businesses

¹This written statement represents the views of the Federal Trade Commission. My oral presentation and responses to questions are my own and do not necessarily represent the views of the Commission or any Commissioner.

²Letter and attachment from Douglas Holtz-Eakin, Director of the Congressional Budget Office, to Honorable William H. Frist, M.D. (Sept. 6, 2005), available at <http://www.cbo.gov/ftpdocs/66xx/doc6627/09-06-ImpactKatrina.pdf>.

on the Gulf Coast, and some of those impacts—such as the damage to port facilities—may significantly impede the flow of raw materials or finished goods to producers and distributors in many industries.

The Commission's testimony today addresses the Subcommittee's inquiries in three parts. First, it reviews the actions that the Commission has taken to protect consumers made more vulnerable by the hurricane's impact. Under the leadership of the Department of Justice, the Commission is participating with other federal agencies in a Katrina-related fraud task force designed to find and prosecute those who would use the chaos of disaster to take advantage of the victims. As part of this effort, the Commission is acting as a central repository for fraud complaint data for all levels of law enforcement. The Commission has also used its website to collect and disseminate important information necessary for consumers to regain their financial stability. Beyond the immediate need to prevent fraud and deception, consumers need to rebuild their financial lives. The Commission is offering consumer education to assist victims in this process and to help them avoid frauds and scams.

The second part of today's testimony highlights the Commission's gasoline monitoring project. Through this activity, the Commission receives data on retail and wholesale gasoline prices across the country. Those data are starting points for FTC investigations, research, and consultations with state attorneys general designed to identify any anticompetitive activity that may result in higher prices.

Finally, the testimony briefly discusses the basic tools that the Commission uses to promote competition in the petroleum industry—namely, aggressively investigating possibly anticompetitive conduct in the industry and commencing enforcement actions as appropriate and challenging potentially anticompetitive mergers and acquisitions in the industry. This review of the Commission's petroleum industry agenda highlights the FTC's contributions to promoting and maintaining competition in the industry on an ongoing basis. It also notes the Commission's current activities to identify anticompetitive conduct during the short-term gasoline product shortage.

II. FTC INITIATIVES TO PROTECT CONSUMERS FROM FRAUD AND DECEPTION

Those displaced by Hurricane Katrina have suffered significant harm, yet they remain vulnerable to even more financial devastation. With no access to their homes, financial documents, or computers, and sometimes lacking any proof of identification, the displaced must rebuild their financial lives. Scam artists will seek to prey on the vulnerability of the already victimized, and Americans responding generously may find their donations going to line the pockets of the unscrupulous. The Commission, therefore, has committed its expertise and resources to assist victims of Katrina to regain control of their financial lives and avoid scams, and to ensure that Americans' generous charitable donations are not siphoned off by bogus fundraisers.

A central mission of the Commission is to educate consumers so that they can make informed choices in the marketplace. The FTC's Office of Consumer and Business Education ("OCBE") also serves as the first line of defense against fraud and deception. For example, through OCBE, the Commission launches a comprehensive education campaign with each major consumer protection campaign and provides consumer education in response to new scams, such as "phishing" and "spyware." OCBE provides consumers with straightforward descriptions of, and practical advice about, their rights under important consumer regulations—such as the recent Fair Credit Reporting Act rules and the Gramm-Leach-Bliley Act privacy and data security regulations—and also provides businesses with clear written guidance on how to comply with those regulations. Finally, OCBE acts quickly to educate consumers about the specific risks posed by significant one-time events, such as Katrina.

When the hurricane hit, OCBE quickly prepared new materials to address: (1) the many financial challenges faced by those who had been displaced by the storm and separated from their financial and other records; (2) the heightened risk of identity theft; and (3) the need to be on alert for scams. The materials provide practical and easily understood steps that consumers can take to protect themselves. The introduction provides the following summary:

1. Communication is more important than ever. Call your creditors. Many are putting programs in place to defer your loan payments, waive late fees, or raise your credit limit temporarily while you get back on your feet. If you've lost your records and need help identifying your creditors, get your credit report. It's free from www.annualcreditreport.com or 1-877-322-8228.
2. Many people will be asking you for your personal information. Ask them for appropriate identification before you give it out. Government officials will not ask you for money in exchange for your information or the promise of a check.

3. Be on the alert for scams. Advance-fee credit arrangements, where you are required to pay a fee for a credit card or some other line of credit before you receive it, are illegal.

Once the immediate hazards of a natural disaster are over, it's inevitable that other problems surface. Among these are scams, frauds, and other consumer protection issues.

The FTC first posted these new educational materials on a special website for consumers and businesses affected by Hurricane Katrina on September 7.³ They are now also available in Spanish. Of course, the Commission recognizes that information posted on a website may have no value to people who have little more than the clothes on their backs, let alone reliable Internet access. Therefore, we are actively reaching out to the U.S. Postal Service, the Federal Emergency Management Agency ("FEMA"), and the Red Cross to arrange to have printed copies of these materials, in English and Spanish, placed in locations where persons displaced by Katrina will see them, such as shelters operated by the Red Cross and FEMA outposts.⁴ OCBE has sent scripts of public service announcements to radio stations in Louisiana, Mississippi, and Alabama, alerting consumers to possible home repair scams in the wake of the hurricane. OCBE also sent public service announcement scripts to radio stations throughout the nation urging consumers to be cautious when making donations to help the victims of the disaster. Announcers often read these scripts on the air as public service messages from the FTC and the radio station.

The FTC also is participating in the Hurricane Katrina Fraud Task Force, which includes members from the Department of Justice, the FBI, the Postal Inspector's Office, and the Executive Office for United States Attorneys, among others. The Attorney General has directed the Task Force to track referrals of potential cases and complaints, coordinate with law enforcement agencies to initiate investigations, match referrals with the appropriate U.S. Attorney's offices, and ensure timely and effective prosecution of Katrina fraud cases. A critical element of the Task Force's work is the consumer complaint data collected, maintained, and analyzed by the FTC in its Consumer Sentinel database. The Consumer Sentinel system is a web-based network that links more than 1,400 law enforcement agencies throughout the United States, Canada, and Australia to over two million fraud and identity theft complaints. These agencies have direct access to complaints that enable them to develop cases, locate witnesses, and seek enhanced sentences for criminal prosecutions. Membership in the Sentinel network ranges from local police departments to every state attorney general and every major federal investigative agency. In addition to their use by law enforcement agencies in developing and pursuing investigations, the Sentinel data provide a window into consumer fraud and identity theft, which we track year-by-year for statistical analysis.

The Commission receives complaints through its toll-free hotline and online complaint form, as well as from external database contributors, such as local offices of the Better Business Bureau, the FBI's Internet Crime Complaint Center, and others. The FTC staff has developed a code for Katrina-related complaints in Consumer Sentinel to make it easy for FTC staff, Task Force members, and other Sentinel users to identify these post-hurricane fraud data. The staff is creating weekly reports on post-hurricane charity scams, identity theft, advance fee credit scams, and other post-disaster frauds, and is posting them directly on Consumer Sentinel. With these reports, Sentinel users will be directed to the complete list of Katrina-related complaints, easing their use of the system and ensuring that the users see all relevant data. These reports also can be sorted to identify complaints by state, so that the appropriate U.S. Attorney's office, as well as state and local law enforcement, can focus their enforcement efforts on local targets.

Finally, experienced FTC attorneys and investigators are analyzing complaint data daily and are prepared to file civil law enforcement actions to shut down scams as they are identified. The FTC has extensive experience bringing quick and effective actions to stop fraud, obtain strong injunctive relief, and recover redress for defrauded consumers. The appropriate resources have been redirected to this effort. For example, senior litigation attorneys in the Commission's Northwest Regional Office, who have long led the FTC's efforts against bogus charities, are poring over charity fraud complaint data. An Assistant Director in the Division of Marketing

³That website is <http://www.ftc.gov/bcp/online/events/katrina/index.html>. The consumer information section of the website also lists specific consumer education materials on topics related to other possible problems and frauds that victims may face, such as "Debris Removal Scams," "Fake Disaster Officials," "Home Ownership Issues," "Job Scams," "Rental Listing Scams," and "Water Treatment or Purification Devices."

⁴Copies of these materials are attached to this testimony.

Practices is coordinating our law enforcement resources and attending Task Force meetings, and the FTC has lent staff assistance to a multi-agency call center that is fielding telephone calls about Katrina-related problems. At the same time, the Commission recognizes that civil remedies are likely insufficient punishment for scam artists who seek to benefit from this great national tragedy. Therefore, the Chief of the FTC's Criminal Liaison Unit, which was established two years ago to facilitate the referral of egregious frauds to criminal prosecutors, is directly participating in the Task Force and is seeking input from all staff regarding potential Katrina-related criminal referrals.

III. GASOLINE AND DIESEL PRICE MONITORING PROJECT

In addition to litigation against fraud, deception, and anticompetitive practices, the Commission has undertaken aggressive measures to protect consumers through other initiatives. As part of its mission to protect competition and consumers in all markets, the Commission has mobilized significant resources to respond to issues raised by higher gasoline prices since Katrina. The petroleum industry plays a crucial role in our economy. Not only do changes in gasoline prices affect consumers directly, but the price and availability of gasoline also influence many other economic sectors. No other industry's performance is more deeply felt, and no other industry is more carefully scrutinized by the FTC.

For example, in a program unique to the petroleum industry, the FTC actively and continuously monitors retail and wholesale prices of gasoline and diesel fuel.⁵ Three years ago, the agency launched this initiative to monitor gasoline and diesel prices to identify "unusual" price movements⁶ and then examine whether any such movements might result from anticompetitive conduct that violates Section 5 of the Federal Trade Commission Act. FTC economists developed a statistical model for identifying such movements. These economists scrutinize regularly price movements in 20 wholesale regions and approximately 360 retail areas across the country. Again, in no other industry does the Commission so closely monitor prices.

The staff reviews daily data from the Oil Price Information Service, a private data collection agency, and receives information weekly from the public gasoline price hotline maintained by the U.S. Department of Energy ("DOE"). The staff monitoring team uses an econometric model to determine whether current retail and wholesale prices are anomalous in comparison to the historical price relationships among cities. When there are unusual changes in gasoline or diesel prices, the project alerts the staff to those anomalies so that we can make further inquiries.

This gasoline and diesel monitoring and investigation initiative, which focuses on the timely identification of unusual movements in prices (compared to historical trends), is one of the tools that the FTC uses to determine whether a law enforcement investigation is warranted. If the FTC staff detects unusual price movements in an area, it researches the possible causes, including, where appropriate, through consultation with the state attorneys general, state energy agencies, and DOE's Energy Information Administration. In addition to monitoring DOE's gasoline price hotline complaints, this project includes scrutiny of gasoline price complaints received by the Commission's Consumer Response Center and of similar information provided to the FTC by state and local officials. If the staff concludes that an unusual price movement likely results from a business-related cause (i.e., a cause unrelated to anticompetitive conduct), it continues to monitor but—absent indications of potentially anticompetitive conduct—it does not investigate further.⁷ The staff investigates unusual price movements that do not appear to be explained by business-related causes to determine whether anticompetitive conduct may underlie the pricing anomaly. Cooperation with state law enforcement officials is an important element of such investigations. The Commission's experience from its past investigations and from the current monitoring initiative indicates that unusual movements in gasoline prices often have a business-related cause.

⁵ See FTC, *Oil and Gas Industry Initiatives*, at <http://www.ftc.gov/ftc/oilgas/index.html>.

⁶ An "unusual" price movement in a given area is a price that is significantly out of line with the historical relationship between the price of gasoline in that area and the gasoline prices prevailing in other areas.

⁷ Business-related causes include movements in crude oil prices, supply outages (e.g., from refinery fires or pipeline disruptions), or changes in and/or transitions to new fuel requirements imposed by air quality standards.

IV. FTC ACTIVITIES TO MAINTAIN AND PROMOTE COMPETITION IN THE PETROLEUM
INDUSTRY

Prior to Hurricane Katrina, increasing crude oil prices had resulted in rising gasoline prices during much of this year. Despite these rising prices, the demand for gasoline during this past summer was strong and exceeded summer demand in 2004. In the recent weeks since Hurricane Katrina, gasoline prices rose sharply to \$3.00 per gallon or more in most markets. In part because of the soaring prices associated with Katrina, gasoline demand has decreased somewhat. National gasoline inventories remain at the lower end of the average range.

On top of an already tight market, Katrina has temporarily disrupted an important source of crude oil and gasoline supply. At one point, over 95 percent of Gulf Coast crude oil production was shut in, and numerous refineries and pipelines were either damaged or without electricity.⁸ As of one week ago, 56.1 percent of Gulf Coast production remained shut in.⁹ Because of this massive supply disruption, substantial price relief has been and will be delayed. Although it is heartening to see that much Gulf Coast production is back online, full-scale production in that region has yet to resume. Our past studies suggest that as gasoline supplies return to pre-Katrina levels, prices should recede from recent high levels. Indeed, retail prices in nearly all areas have fallen in recent days, and accompanying declines in wholesale prices presage further price declines at retail. It is important to remember, however, that Katrina damaged important parts of the energy infrastructure in the Gulf Coast region, including oil and gas production and refining and processing facilities. Some adverse effect on energy prices may persist until the infrastructure recovers fully—a process that could take months.

The Commission is very conscious of the swift and severe price spikes that occurred immediately before and after Katrina made landfall. There have been numerous calls for investigations of “price gouging,” particularly at the retail gasoline level. Legislation that would require the Commission to study this issue recently passed the Senate.¹⁰ In addition, Section 1809 of the recently enacted Energy Policy Act¹¹ mandates an FTC investigation “to determine if the price of gasoline is being artificially manipulated by reducing refinery capacity or by any other form of market manipulation or price gouging practices.” The Commission staff already has launched an investigation to scrutinize whether unlawful conduct affecting refinery capacity or other forms of illegal behavior have provided a foundation for price manipulation. A determination that unlawful conduct has occurred will result in aggressive law enforcement activity by the FTC.

The FTC has initiated this inquiry with a keen understanding of its importance to the American consumer and intends faithfully to fulfill its obligation to search for and stop illegal conduct. We recognize, of course, that our investigation will not be a simple one. As many have already pointed out, “price gouging” is not prohibited by federal law. Consumers justifiably are upset when they face dramatic price increases within very short periods of time, especially during a disaster. Some prices increase, however, benefit consumers in the long run. In our economy, prices play a critical role: they signal producers to increase or decrease supply, and they also signal consumers to increase or decrease demand. In a period of shortage—particularly with a fungible product, like gasoline, that can be sold anywhere in the world—higher prices create incentives for suppliers to send more product into the market, while also creating incentives for consumers to use less of the product. Higher prices ultimately help make the shortage shorter-lived than it otherwise would have been. There may be situations where sellers go beyond the necessary market-induced price increase, taking advantage of a crisis to “gouge” consumers. However, it can be very difficult to determine the extent to which any price increases are greater than necessary. Furthermore, even these “gouging” types of price increases do not fit well under longstanding principles of antitrust law. Under the antitrust laws, a seller with lawfully acquired market power—including market

⁸ See Minerals Mgmt. Serv., U.S. Dep’t of the Interior, Release No. 3328, *Hurricane Katrina Evacuation and Production Shut-in Statistics Report as of Tuesday, August 30, 2005*, at <http://www.mms.gov/oc/pres/2005/press0830.htm>.

⁹ See Minerals Mgmt. Serv., U.S. Dep’t of the Interior, Release No. 3347, *Hurricane Katrina Evacuation and Production Shut-in Statistics Report as of Thursday, September 15, 2005*, at <http://www.mms.gov/oc/pres/2005/press0913.htm>.

¹⁰ On September 15, 2005, the Senate passed the Fiscal Year 2006 Commerce-Justice-Science Appropriations bill, which included funding for the FTC. An amendment to this bill introduced by Senator Mark Pryor requires the FTC to conduct an investigation into gasoline prices in the aftermath of Hurricane Katrina.

¹¹ Energy Policy Act of 2005, Pub. L. No. 109-58 § 1809, — Stat. — (2005).

power arising from an act of God—can charge any price the market will bear, so long as this seller does not join with others to set prices or restrict supply.

Finally, many states have statutes that address short-term price spikes in the aftermath of a disaster, and we understand that a number of them have opened investigations of gasoline price gouging. At the retail level, state officials—because of their proximity to local retail outlets—can react more expeditiously than a federal agency could to the many complaints that consumers have filed about local gasoline prices. Nevertheless, these issues will not deter the FTC from investigating and responding to any manipulation of gasoline prices we are able to uncover that violates federal antitrust law.

In addition to commencing its investigation pursuant to Section 1809 of the Energy Policy Act and dealing with the short-term market dislocations caused by Katrina, the FTC has been and remains vigilant regarding anticompetitive conduct in the energy industry in the long run. Recent FTC activity in the gasoline industry includes the acceptance on June 10, 2005, of two consent orders that resolved the competitive concerns relating to Chevron's acquisition of Union Oil Company of California ("Unocal") and settled the Commission's 2003 monopolization complaint against Unocal. The Unocal settlement alone has the potential to save billions of dollars for California consumers in future years.

Moreover, in early July 2005, the Commission published its study explaining the competitive dynamics of gasoline pricing and price changes.¹² This study grew out of conferences of industry, consumer, academic, and government participants held by the Commission over the past four years, as well as years of research and experience, and sheds light on how gasoline prices are set.

In 2004, the FTC staff published a study reviewing the petroleum industry's mergers and structural changes as well as the antitrust enforcement actions that the agency has taken over the past 20 years.¹³ Commission enforcement statistics show that the FTC has challenged proposed mergers in this industry at lower concentration levels than in other industries. Since 1981, the FTC has filed complaints against 19 large petroleum mergers. In 13 of these cases, the FTC obtained significant divestitures. Of the six other matters, the parties in four cases abandoned the transactions altogether after agency antitrust challenges; one case resulted in a remedy requiring the acquiring firm to provide the Commission with advance notice of its intent to acquire or merge with another entity; and the sixth case was resolved recently with the execution by the parties of a 20-year throughput agreement that will preserve competition allegedly threatened by the acquisition.¹⁴

The Commission has gained much of its antitrust enforcement experience in the petroleum industry by analyzing proposed mergers and challenging transactions that likely would reduce competition, thus resulting in higher prices.¹⁵ In 2004, the Commission released data on all horizontal merger investigations and enforcement actions from 1996 to 2003.¹⁶ These data show that the Commission has brought more merger cases at lower levels of concentration in the petroleum industry than in other industries. Unlike in other industries, the Commission has obtained merger relief in moderately concentrated petroleum markets.

The aforementioned case involving Chevron's acquisition of Unocal illustrates our approach to protecting competition in the petroleum industry. When the merger investigation began, the Commission was in the middle of an ongoing monopolization case against Unocal that would have been affected by the merger. As detailed below, the Commission settled both the merger and the monopolization matters with separate consent orders that preserved competition in all relevant merger markets and obtained complete relief on the monopolization claim.¹⁷

¹²FEDERAL TRADE COMMISSION, GASOLINE PRICE CHANGES: THE DYNAMIC OF SUPPLY, DEMAND, AND COMPETITION (2005), available at <http://www.ftc.gov/reports/gasprices05/050705gaspricesrpt.pdf>.

¹³BUREAU OF ECONOMICS, FEDERAL TRADE COMMISSION, THE PETROLEUM INDUSTRY: MERGERS, STRUCTURAL CHANGE, AND ANTITRUST ENFORCEMENT (2004), available at <http://ftc.gov/os/2004/08/040813mergersinpetrolberpt.pdf>.

¹⁴See <http://ftc.gov/opa/2005/09/alohapetrol.htm>.

¹⁵Section 7 of the Clayton Act prohibits acquisitions that may have anticompetitive effects "in any line of commerce or in any activity affecting commerce in any section of the country." 15 U.S.C. § 18.

¹⁶Federal Trade Commission Horizontal Merger Investigation Data, Fiscal Years 1996-2003 (Feb. 2, 2004), Table 3.1, et seq.; FTC Horizontal Merger Investigations Post-Merger HHI and Change in HHI for Oil Markets, FY 1996 through FY 2003 (May 27, 2004), available at <http://ftc.gov/opa/2004/05/040527petrolactionsHHIdeltachart.pdf>.

¹⁷*Chevron Corp.*, FTC Docket No. C-4144 (July 27, 2005) (consent order), at <http://ftc.gov/os/caselist/0510125/050802do0510125.pdf>; *Union Oil Co. of California*, FTC Docket No. 9305 (July 27, 2005) (consent order), at <http://ftc.gov/os/adjpro/d9305/050802do.pdf>.

On March 4, 2003, the Commission issued its monopolization complaint against Unocal, alleging that it had reason to believe that Unocal had violated Section 5 of the FTC Act.¹⁸ The complaint charged that Unocal deceived the California Air Resources Board (“CARB”) in connection with regulatory proceedings to develop the reformulated gasoline (“RFG”) standards that CARB adopted. Unocal allegedly misrepresented that certain technology was non-proprietary and in the public domain, while at the same time it pursued patents that would enable it to charge substantial royalties if CARB mandated the use of Unocal’s technology in the refining of CARB-compliant summertime RFG. The Commission alleged that, as a result of these activities, Unocal illegally acquired monopoly power in the technology market for producing the new CARB-compliant summertime RFG, thus undermining competition and harming consumers in the downstream product market for CARB-compliant summertime RFG in California. The Commission estimated that Unocal’s enforcement of its patents could potentially result in additional consumer costs of up to 6 cents for every gallon of gasoline pumped in the State of California, which amounts to over \$500 million of additional consumer costs per year.

The proposed merger between Chevron and Unocal raised additional concerns. Unocal had claimed the right to collect patent royalties from companies with refining and retailing assets (including Chevron). Had Chevron unconditionally inherited these patents by acquisition, it would have been in a position to obtain sensitive information and to claim royalties from its own downstream competitors. The Commission alleged that Chevron could have used this information and this power to facilitate coordinated interaction and detect any deviations.

The key element in the consent orders by which the Commission resolved both the Chevron/Unocal merger investigation and the monopolization case against Unocal is Chevron’s agreement not to enforce the Unocal patents.¹⁹ The FTC’s settlement of these two matters is a substantial victory for California consumers. The Commission’s monopolization case against Unocal was complex and, with possible appeals, could have taken years to resolve, with substantial royalties to Unocal—and higher consumer prices—in the interim. The settlement provides the full relief sought in the monopolization case and also resolves the only competitive issue raised by the merger. With the settlement, consumers will benefit immediately from the elimination of royalty payments on the Unocal patents, and potential merger efficiencies could result in additional savings at the pump.

V. CONCLUSION

The Federal Trade Commission has instituted aggressive initiatives to protect consumers in the aftermath of Hurricane Katrina. The Commission has taken action whenever fraud, deception, anticompetitive conduct, or a potentially illegal merger has threatened the welfare of consumers or competition in the petroleum (or any other) industry. The Commission continues to take whatever action is warranted to protect consumers and preserve competition. In the petroleum industry in particular, the Commission continues to seek out and challenge illegal conduct, to monitor retail and wholesale gasoline and diesel prices, and to study and report on the industry in detail.

Thank you for this opportunity to present the FTC’s views on this important topic. I would be glad to answer any questions that the Subcommittee may have.

Mr. STEARNS. I thank the gentleman. We are going to break to vote, but the full committee chairman, Mr. Barton, is here, and since we are getting ready to break, it might be appropriate, if he has any comments, before we come back with a further witness, opening statement.

Mr. Chairman.

Chairman BARTON. Mr. Chairman, I am going to put my statement in the record. I just want to thank—this is—thank this panel. This is a very distinguished panel. Some of you I know personally, all of you I know by reputation.

The issues that this subcommittee is looking at are not as sexy as the health issue and environmental issue, but in terms of the economic consequences, you are very, very important, and I want

¹⁸ *Union Oil Co. of California*, FTC Docket No. 9305 (Mar. 4, 2003) (complaint), at <http://ftc.gov/os/2003/03/unocalcmp.htm>.

¹⁹ *Chevron Corp.*, *supra* note 17.

to thank each of you for coming today. Substantively, this is a very, very significant hearing, and I appreciate your personal attendance today.

And I would yield back.

Mr. STEARNS. And I thank the full committee chairman, and it is by unanimous consent his opening statement be part of the record.

[The prepared statement of Hon. Joe Barton follows:]

PREPARED STATEMENT OF HON. JOE BARTON, CHAIRMAN, COMMITTEE ON ENERGY AND COMMERCE

Thank you Mr. Chairman for holding this hearing today. Two weeks ago we held a Full Committee hearing on issues related to Hurricane Katrina. This is the first of the follow up hearings. As we continue on our efforts toward recovery, we are increasingly aware of the scope and the scale of the need. Our thoughts are still with those affected by the disaster and we will work in an earnest manner to meet the needs of our fellow citizens. This hearing will focus on the commerce and consumer protection issues related to the recovery effort.

On the consumer protection front, the Committee is taking a close look at a number of issues. One of those is charity-related fraud. Americans respond with great generosity in the wake of disaster. Unfortunately, fraudsters know this and use national emergencies to pad their own pockets. The FBI recently reported more than 4000 suspected fraudulent sites related to hurricane Katrina donations. We saw a similar rise in charity-related fraud after the terrorist attacks on September 11, which is when Representative Bass first introduced the "American Spirit Fraud Prevention Act." That legislation provides for increased penalties for fraudsters that prey on others' generosity during national emergencies. The legislation has passed the House twice. We will work to see it through the House again and urge our Senate colleagues to move it through that body.

Another consumer protection issue relates to flood damaged vehicles. Many cars that are deemed "totaled" by insurance companies are sold at auctions for salvaged parts. But unscrupulous dealers can buy these cars, clean them up, re-title them and sell them to consumers. These cars can be a threat to the safety of the new owners. We will take a closer look at this issue and ways in which we can discourage this practice.

A third consumer protection issue we intend to examine is price gouging. Many states have laws that limit price increases of certain consumer goods and services after a national emergency. Those laws cover products and services such as gasoline, hotel rooms, lumber, food, generator services, home repair services, and tree removal services. There is currently no Federal law against so-called price gouging, though in the aftermath of Hurricane Katrina there have been a number of calls for such a federal law. "Price gouging" can be very difficult to define, particularly in terms of greatly reduced supply. I welcome comments from witnesses on that and other issues, but I believe price caps are rarely appropriate for all products and services and usually backfire, hurting consumers. I would also like to learn the efficacy of temporary reductions in taxes on specific products—such as gasoline taxes—in times of emergency.

On the Commerce front, we have much work to do. Though incredibly resilient, the U.S. economy has experienced disruption following Katrina and that disruption may impact areas of the economy beyond the ability to rebuild the areas devastated by the hurricane. There are the obvious needs of opening ports, roads, and rail routes and reconstructing supply chain infrastructure for the rebuilding efforts in the South. Energy and labor are also important variables in the rebuilding efforts, both to move goods down to the region and to do the actual work of rebuilding. Meeting the needs of the South in its efforts to care for affected individuals and for rebuilding is clearly the highest priority. I look forward to witness testimony on these issues as well as the broader impact on the U.S. economy.

I thank the witnesses for their participation today. I yield back the balance of my time.

Mr. STEARNS. And so we are going to vote, and we will be right back after the vote, and I appreciate your patience.

[Brief recess.]

Mr. STEARNS. Continue, Dr. Hall, with your opening statement, if you don't mind, we will just continue on, and members will come in. We have finished our votes for about an hour, hour and a half. So I think we are all set.

Dr. Hall.

STATEMENT OF KEITH HALL

Mr. HALL. Chairman Stearns, Ranking Member Schakowsky, members of the subcommittee, my name is Keith Hall. I am the Chief Economist for the U.S. Department of Commerce. I would like to summarize my written testimony, and would ask that it be submitted into the record.

Mr. STEARNS. Unanimous consent, so ordered.

Mr. HALL. Thank you for the opportunity to talk to you today about our national economy and the effect of Hurricane Katrina.

Clearly, the effects to the Gulf Coast have been devastating to residents there. Those of us—oh, great. Sorry. Those of us who have not been through such overwhelming loss cannot imagine it, much less assign it a number. However, the statistical agencies in Commerce and other Federal departments are working quickly to estimate Hurricane Katrina's effects on the overall economy, as well as the regional, State, and even some local economies. Using the range of existing economic surveys and data collections, we can also examine the effects of Hurricane Katrina on the population, using the American Community Survey and other population surveys. We are seeing some Katrina-related shifts in the data already, and can expect to see more in the future. All of the economic consequences are not known, and the full effects of the hurricane may never be completely revealed in economic data, because the upheaval in the Gulf Coast will be diluted in the macroeconomic data by continued strong economic growth elsewhere in the country.

I am, in fact, optimistic about the continued strength and strong performance of the U.S. economy, despite the devastating effects of Hurricane Katrina. In 2004, the U.S. economy generated nearly \$12 trillion in Gross Domestic Product. Louisiana, Alabama, and Mississippi together, combined for about 3.1 percent of this GDP. And for comparison, GDP last year grew 4.2 percent over the previous year. Employment and production in the region are quite diversified. However, the affected area counts for an unusually large portion of U.S. employment in certain industries. These include shipbuilding and repairing, petroleum refining and many types of chemical manufacturing, and tourism, including casinos. The ports damaged by Katrina accounted for 4.5 percent of total exports of goods from the United States last year, and 5.4 percent of total imports. Importantly, 19 percent of all crude petroleum imports into the U.S. entered the country in the New Orleans Customs District.

For the most part, economic data released in the past 2 weeks have measured economic activity prior to the impact of the hurricane. The Bureau of Labor Statistics employment released on October 7 will give us the first monthly to estimate the full impact of the storm. We do have a little information this morning from the Department of Labor. They have estimated that over the past 3 weeks, 214,000 people have filed new claims for unemployment in-

insurance as a result of the hurricane. What makes the employment disruptions different now is that we have an unusually high displacement of workers and economic activity for an as yet unknown period of time.

Please understand that it may be impossible in some cases to even fully differentiate Katrina's impact from other changes in economic activity that were occurring at the time. At both the national and regional levels, the precise impact of a natural disaster on GDP and other data cannot be separately measured, because our statistical system is designed to estimate what actually occurred, rather than what might have happened in the absence of a disaster.

The broadest summary measure of our economy is Gross Domestic Product. The most important thing to understand when thinking about the impact of Katrina is that GDP measures new things being produced. Storms and flood damage are old things that were produced in the past. The loss of those old things does not figure into GDP, and the fact that workers—but the fact that workers and factories are not producing anything, because they are closed, underwater, or damaged will reduce future GDP. But mitigating that somewhat is the economic activity related to replacing all the old things that were damaged, to rebuild houses, factories, and infrastructure, and this will eventually show up as increased economic activity later on.

We can see how this worked during last year's hurricane season. Third quarter GDP growth was a strong 4 percent at an annual rate, despite a heavy hurricane season, which included four hurricanes in Florida. Their effect on activity and employment which, granted, was much smaller than Katrina's, was overwhelmed by the fundamental forces that underpin the Nation's strong economic growth, and was also offset by the immediate rise in construction activity as the structures damaged by those hurricanes were rebuilt.

Katrina is also unusual because of its impact on the economy's energy sector. For some time now, we have been concerned about the potential effects of rising energy prices on the economy. The direct effects from Katrina are expected to be significant, but still modest, relative to the overall economy. Last year, consumers spent \$230 billion for gasoline. At about \$3 per gallon, recent gasoline prices were 50 percent above levels 1 year ago. If consumers wish to purchase the same amount of gasoline this year, they would spend an extra \$115 billion, which would leave \$115 billion less for spending on other goods and services, all other things equal. By comparison, total consumer spending grew about \$500 billion last year. Thus, the higher energy bill will have a significant impact, but there is no reason that real consumer spending on other goods and services cannot continue to grow at a healthy rate, despite the higher energy bill.

Substantial pre-Katrina energy price increases have not yet led to inflation or pricing pressures elsewhere in the economy. Core inflation, a measure of the underlying inflation pressure in the economy, has remained low, even as energy prices have risen to unusual levels. The Consumer Price Index for core goods and services increased at a modest 1.3 percent annual rate over the past 5

months, and this is actually a step down from the previous 12 months, which is—where prices grew at 2.4 percent.

Mr. Chairman, my team at Commerce will continue to monitor these economic data for evidence of the storm's impacts, and I would be happy to update you on our analysis of the hurricane and its consequences. I would also be pleased to take your questions later.

[The prepared statement of Keith Hall follows:]

PREPARED STATEMENT OF KEITH HALL, CHIEF ECONOMIST, U.S. COMMERCE
DEPARTMENT

Chairman Stearns, Ranking Member Schakowsky, Members of the Subcommittee. My name is Keith Hall. I am the Chief Economist at the U.S. Department of Commerce.

I would like to summarize my written testimony and would ask that it be submitted for the record.

Thank you for the opportunity to talk with you today about our economy and the effect of Hurricane Katrina.

Clearly the effects to the Gulf Coast have been devastating to residents there. Those of us who have not been through such overwhelming loss cannot imagine it, much less assign it a number.

However, the statistical agencies in Commerce and other Federal departments are working quickly to estimate Hurricane Katrina's effects on the overall economy as well as the regional, state, and even some local economies, using the range of existing economic surveys and data collections. We can also examine the effects of Hurricane Katrina on the population, using the American Community Survey and other population surveys.

We are seeing some Katrina-related shifts in the data already and can expect to see more in the future. All of the economic consequences are not known and the full effects of the hurricane may never be completely revealed in economic data because the upheaval in the Gulf Coast will be diluted in macroeconomic data by continued strong economic growth elsewhere in the country.

I can discuss with you today some of the data released so far and how Katrina is similar to and different from other storms.

In 2004, the resilient U.S. economy generated approximately \$11.7 trillion in Gross Domestic Product. Louisiana's economy was \$152 billion last year. Alabama's economy measured \$139 billion and Mississippi's economy was \$76 billion in 2004. Together the three states therefore accounted for about 3.1% of U.S. GDP.

Employment and production in the region are quite diversified. However, the affected area accounts for an unusually large portion of U.S. employment in certain industries. These include shipbuilding and repairing, petroleum refining and many types of chemical manufacturing, and tourism, including casinos.

The ports damaged by Katrina accounted for 4.5% of total exports of goods from the United States last year, and 5.4% of total U.S. imports. Importantly, 19% of all crude petroleum imports into the U.S. entered the country in the New Orleans customs district.

For the most part, economic data released in the past two weeks have measured economic activity prior to the impact of the hurricane. They do not, therefore, answer the question posed at this hearing. The Bureau of Labor Statistics' employment release on October 7 will give us the first monthly data to estimate the effects of the storm. These data regularly show absences of work due to bad weather, with regular spikes in the summer and fall months of hurricane season. In the past decade, the east coast blizzard of 1996 caused the largest work stoppage of any single episode—but that may be challenged by the Katrina-related disruptions.

We do have some limited weekly data about unemployment insurance. For the week ending September 10, initial claims for unemployment insurance shot up 71,000 from the previous week. This was the largest jump since the 1996 blizzard. The Department of Labor estimates that 68,000 of that increase was hurricane related.

What makes the employment disruptions different now is that we have an unusually high displacement of workers and economic activity for an as-yet-unknown period of time. Many of the affected workers must wait for the water to be pumped out of New Orleans and for very significant cleanup and infrastructure repair to be completed before they can return to their homes and their jobs. Will these workers return to New Orleans to advance the rebuilding or will they stay in Houston or

Baton Rouge or Atlanta? And if they do not return to New Orleans, how long will it take for them to find jobs?

The devastation in the affected area is already reflected in lower industrial production. While industrial production was up in the most recent report for August, the Federal Reserve estimates Katrina-related declines in several industries reduced overall growth by 0.3 percentage points' even though Katrina only affected production for the last few days of the August reference period.

At the same time, Katrina's impact on August retail sales and construction activity seems to have been very small. Of course, those releases only cover the first few days of Katrina's effect. We will only be able to begin to gauge the broader impact of the storm when the Census Bureau releases estimates for September.

Please understand that it may be impossible, in some cases, to ever fully differentiate Katrina's impact from other changes in economic activity that were occurring at the same time. At both the national and regional levels, the precise impact of a natural disaster on GDP and other data cannot be separately measured because our statistical system is designed to estimate what actually occurred rather than what might have happened in the absence of the disaster.

The broadest summary measure of our economy is Gross Domestic Product (GDP). The most important thing to understand when thinking about the impact of Katrina is that GDP measures new things being produced. Storms and floods damage old things that were produced in the past. The loss of those old things does not figure into GDP—although it does figure into the Bureau of Economic Analysis's estimate of depreciation (the amount of capital expended during a given period). Thus, the destruction of capital itself will not affect current GDP—although the fact that workers and factories are not producing anything because they are closed, underwater, or damaged *will* reduce future GDP. In the coming quarters, however, the economic activity required to replace all those old things—to rebuild houses, factories and infrastructure—will eventually show up as increased economic activity.

We can see how this worked during last year's hurricane season. Third quarter 2004 growth was a strong 4% despite a heavy hurricane season—including four hurricanes in Florida. The hurricanes' effect on activity and employment (much smaller than Katrina—s, admittedly) was overwhelmed by the fundamental forces that underpinned the nation's strong economic growth, and was also offset by the immediate rise in construction activity as the structures damaged by those hurricanes were rebuilt.

Katrina is unusual because of its impact on the economy's energy sector. For some time now, economists have been concerned about the potential effects of rising energy prices on the economy. The direct effects from Katrina are expected to be significant but still modest relative to the overall economy. Last year, consumers spent \$230 billion for gasoline. At about \$3 per gallon, recent gasoline prices were 50% above levels one year ago. If consumers wish to purchase the same amount of gasoline, they would spend (\$115 billion) less on other goods and services, all other things being equal. Gasoline prices have already declined from peak levels and are expected to continue to decline. Price increases in other energy products—mainly natural gas and fuel oil—will add to the burden. But consumers spend considerably less on these products than on gasoline.

By comparison, total consumer spending grew about \$500 billion in 2004. Thus the higher energy bill will have a significant impact—but there is no reason that real consumer spending on other goods and services cannot continue to grow at a healthy rate despite the higher energy bill.

Substantial pre-Katrina energy price increases did not appear to lead to inflation or pricing pressure elsewhere in the economy. Core inflation—a measure of the underlying inflation pressure in the economy—has remained low even as energy prices rose to unusual levels. The consumer price index for core goods and services increased at a modest 1.3-percent annual rate during the past five months (from March to August, 0.1 percent per month), a step-down from the 2.4-percent pace over the prior 12 months (March 2004 to March 2005).

Mr. Chairman, my team at the Department of Commerce will continue to monitor these economic data for evidence of the storm's impacts. I would be happy to update you on our analysis of the hurricane and its consequences. I would also be pleased to take your questions.

Mr. STEARNS. Thank the gentleman. Mr. Huether.

STATEMENT OF DAVID M. HUETHER

Mr. HUETHER. Good morning Chairman Stearns, Ranking Member Schakowsky, and members of the subcommittee. Thank you for

giving me the opportunity to discuss the economic effects of Hurricane Katrina on manufacturing and the economy.

My name is David Huether. I am the national—I am the Chief Economist of the National Association of Manufacturers, the Nation's largest industry trade association, representing small and large manufacturers in every industrial sector in all 50 States.

By far, Hurricane Katrina is the biggest natural disaster to hit our country in recent memory, and the economic effects of Katrina will not be lost in the rounding, as has occurred with some past national disasters.

Collectively, the economies of Alabama, Louisiana, and Mississippi account for 3 percent of the U.S. economy, roughly the size of Michigan, and 3.4 percent of manufacturing output. The New Orleans Customs District is the gateway to the global economy for much of our country. Fully a quarter of U.S. agricultural exports travel through this region to markets all around the world. At the same time, about 5 percent of U.S. manufacture trade goes through these ports. In addition, the Gulf of Mexico accounts for 29 percent of our Nation's oil products, and 19 percent of natural gas production.

Prior to Hurricane Katrina, the U.S. economy had grown by a solid 3.6 percent over the last four quarters, and had created 2.2 million jobs, pushing the unemployment rate down to a 4-year low of 4.9 percent. At the same time, manufacturing output increased by a similar 3.3 percent. Looking forward, the economy was on track to grow by 4.3 percent in the third quarter, according to our estimates, and manufacturing production was expected to accelerate to 5 percent growth by the fourth quarter. Hurricane Katrina, however, along with future reconstruction efforts, will have a significant impact on the economy over the next year.

The direct impact of Hurricane Katrina displaced upwards of 300,000 workers, and destroyed an estimated \$70 billion worth of capital. In the area of energy, though progress has been made, over half of the oil production, and a third of natural gas production in the Gulf remain shut in by—in mid-September, and four refineries remain offline. Currently, estimate are that it will take between 3 and 6 months to make repairs.

In the weeks following Hurricane Katrina, the NAM surveyed its membership to see what the effects of the storm would be on manufacturers. The survey found that 10 percent of the respondents had production facilities that were directly affected by Hurricane Katrina. The positive side here is that 8 percent expect to restore production in a matter of weeks; 36 percent have experienced supply disruptions from Hurricane Katrina; 28 percent say these supply disruptions have affected production; and 25 percent, a full quarter, say the supply disruptions have caused shortages and higher prices, both in energy and in materials.

These results indicate that a sizable portion of the manufacturing has been impacted by Hurricane Katrina. Looking forward, Hurricane Katrina is expected to slow economic growth in the third quarter from 4.3 percent, as I previously stated, to 3.2 percent. This is a 26 percent decline in the pace of economic growth. This pace will continue, I think, in the fourth quarter as well. At the

same time, a quarter of a million fewer jobs will be created in the second half of the year, due to the effects of Katrina.

Inflation, as measured by the CPI, will likely increase by close to 6 percent in the third quarter, as a result of higher energy prices. However, as supply comes back online, inflation—the inflation rate is expected to be cut in half in the fourth quarter. Much of the slowdown in the third quarter will come from a 19 percent reduction in the growth rate of consumer spending. The displacement of hundreds of thousands of residents in the Gulf Coast, as well as higher energy prices, which lowers disposable income, will cut deeply into consumer spending in September, and later in the fourth quarter, when consumer spending is expected to increase by just 2.4 percent.

In addition, the pace of capital spending is expected to slow by 50 percent in the third quarter, and increase by just 3.9 percent. This will be the slowest increase in capital spending since the first quarter of 2003. Later, in the fourth quarter, the pace of business investment will accelerate, as reconstruction efforts pick up steam. From the slowdown in both consumer spending and business investment, manufacturing output will likely increase by just 3.1 percent in the second half of this year. This is 40 percent slower than the 5.1 percent increase in the pre-Katrina baseline.

Anticipating efforts in the first half of 2006, particularly in the first quarter, and moderating energy prices, will create a seesaw effect for the U.S. economy and manufacturing. GDP is expected to increase by 4.1 percent in the first half of 2006. This is 28 percent faster than the pre-Katrina baseline. At the same time, manufacturing production will increase from 3 percent growth to 6 percent growth in the first half of next year, as reconstruction efforts accelerate.

In summary, while job dislocations and damaged production capacity will significantly reduce economic growth and job creation in the months ahead, the slowdown in the macroeconomy overall will likely be temporary.

Thank you.

[The prepared statement of David M. Huether follows:]

PREPARED STATEMENT OF DAVID M. HUETHER, CHIEF ECONOMIST, NATIONAL ASSOCIATION OF MANUFACTURERS ON BEHALF OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

Good morning Chairman Stearns, Ranking Member Schakowsky, and members of the Subcommittee. Thank you for the opportunity to discuss the economic effects of Hurricane Katrina on manufacturing and the economy.

My name is David Huether and I am the Chief Economist at the National Association of Manufacturers (NAM), the nation's largest industry trade association, representing small and large manufacturers in every industrial sector and in all 50 states.

By far, Hurricane Katrina is the biggest natural disaster in the U.S. in recent memory. In addition to the terrible loss of life, Hurricane Katrina hit the Gulf Coast at a time when energy prices were already surging. Katrina's impact on the energy-intensive region created an additional energy-price shock to the nation. As a result, the economic effects of Katrina will not be "lost in the rounding", as has occurred with some past natural disasters.

IMPORTANCE OF THE GULF COAST TO THE ECONOMY

Collectively, the economies of Alabama, Louisiana, and Mississippi (the states hardest hit by Hurricane Katrina) totaled \$367 billion in 2004¹, roughly the size of Michigan, or about 3.1 percent of the overall U.S. economy, and 3.4 percent of our nation's overall manufacturing output. Manufacturing is the largest private sector in Mississippi and Alabama, where it accounts for 16% of the economy in both states, and the second-largest industry in Louisiana, where manufacturing accounts for 11 percent of the state economy.

The New Orleans Customs District is the gateway to the global economy for much of the middle of the country. Much of this international trade comprises of commodity and agricultural products. Fully a quarter of U.S. agricultural exports, including 62 percent of corn and soybean exports, travel through this region to markets around the world. At the same time, more than 20 percent of iron & steel, fertilizer and ore imports enter our economy through the ports of the Gulf Coast.

Overall, 5 percent of U.S. manufactured exports to the world are channeled through the New Orleans Customs District; while close to 4 percent of manufactured imports enter our economy through these ports.

Most of the Gulf Coast ports escaped the hurricane with minimal damage. Based on assessments by the Louisiana Department of Transportation and Development, two of the six deepwater ports located in Louisiana suffered extensive damage: St. Bernard and Plaquemines. The Port of South Louisiana, the nation's largest port by tonnage and essential to the nation's agricultural trade, suffered only minor damage. All of the state's 21 inland and shallow water river ports remain fully operational. Elsewhere along the gulf coast, while the ports of Gulfport, and Bayou La Batre, remain closed, most of the others are operational. While further work needs to be done to replace damaged equipment and restore electricity, the overall effect on international trade flows from Hurricane Katrina will likely be modest and temporary.

Perhaps the largest macroeconomic effect from Hurricane Katrina has been the storm's impact the nation's energy infrastructure. The Gulf of Mexico supplies 29 percent of our nation's domestic oil production and 19 percent of the domestic gas production.²

In total, Hurricane Katrina destroyed 37 energy platforms, representing 1 percent of oil and gas production. In addition, 50 platforms were damaged extensively, 4 of which account for 10 percent U.S. production. Current estimates are that it will take between three and six months to make repairs. In addition, four refineries remain shut down, and expectations are that these refineries, which represent about 5 percent of total U.S. refining capacity, could remain idle for an extended period. In summary, while progress has been made over the past few weeks, downstream effects from reduced refining and production capacity will be felt for months.

THE ECONOMIC SITUATION PRE-KATRINA

Prior to Hurricane Katrina making landfall on August 29, 2005 as an extremely dangerous Category 4 storm, the U.S. economy and the manufacturing sector were growing at a solid pace. Supported by 3.8 percent growth in consumer spending; 9.1 percent growth in business investment; and export growth (8.3%) outpacing import growth (5.9%), the U.S. economy has grown by a solid 3.6 percent in the past year.³ Manufacturing output increased by a similar 3.3 percent. At the same time, the economy created 2.2 million jobs, and the unemployment rate fell to 4.9 percent—the lowest level in four years.

Despite a pre-Katrina increase in energy prices, core consumer inflation, which excludes food and energy, edged up just 1.9 percent over the prior 4 quarters.⁴

More recently, core (non-motor vehicles) retail sales remained solid in July and August, while manufacturing production was beginning to accelerate from a "soft" second quarter. Overall, the economy was on track to grow by 4.3 percent in the third quarter and manufacturing production was expected to accelerate to 5 percent growth by the fourth quarter.

KATRINA'S IMPACT ON MANUFACTURERS

Hurricane Katrina took a staggering human toll and will also leave a deep, though not permanent impression on the nation's economy as well. In the weeks fol-

¹ U.S. Department of Commerce, Bureau of Economic Analysis

² Minerals Management Service, Department of the Interior

³ Second quarter of 2004 to the second quarter of 2005. Source: U.S. Department of Commerce

⁴ PCE price index excluding food and energy. Bureau of Economic Analysis. U.S. Department of Commerce.

lowing Hurricane Katrina, the NAM surveyed its membership to gauge the impact of the storm and its aftermath on manufacturing. While the survey did not likely get through to many companies in the areas most affected by the storm, the responses nevertheless provide a preliminary estimate of the impact of Hurricane Katrina on the broader manufacturing sector. The results are listed below:

16 percent of survey respondents have operations in the areas directly impacted by Katrina. 8 percent have facilities that sustained damage while 10 percent have had production capacity reduced. Of these, 8 percent expect to have production back in a matter of weeks while just 2 percent report that it will take months to resume production.

36 percent have experienced supply disruptions from Hurricane Katrina. 12 percent have experienced just energy supply disruptions and 24 percent have experienced both energy and material input supply disruptions.

28 percent say supply disruptions have affected production. 23 percent have reduced production operations and 5 percent have had to stop production operations due to supply disruptions.

25 percent responded that supply disruptions have caused shortages that have led to higher prices. 7 percent report energy shortages and 18 percent report shortages in energy and material inputs.

32 percent responded that damage caused by Hurricane Katrina has affected their company's ability to ship products to customers. 26 percent report that shipments have been partially halted, while 6 percent have had shipments completely halted.

84 percent responded that their companies' employees have not been affected (relocated) due to Hurricane Katrina.

92 percent responded that they will not have to reduce employment due to disruptions from Hurricane Katrina.

Over three quarters (79%) are providing relief assistance. 46 percent are offering a direct money gift; 34 percent have set up an employee matching gift program and 31 percent are donating in-kind relief supplies.

These results indicate that a sizable minority of manufacturing output was directly impacted by Hurricane Katrina's destructive force either directly (10%) or through supply disruptions (28%). However, these impacts appear to be short term. The same will likely go for the quarter of respondents who reported higher prices, depending on how quickly energy production and port operations are reconstituted. Therefore, there will likely be a significant slowdown in manufacturing production in the third quarter along with acceleration in producer prices.

Separately, conversations with businesses in both Mississippi and Louisiana highlighted other concerns not covered in the NAM survey. In addition to damage to plant and equipment, an equally significant problem for manufacturers is the state of their workforce. Hurricane Katrina displaced thousands of workers and also temporarily cut off services such as day care that are used extensively in today's economy. This is making it difficult in some cases for companies to bring production back on line. In addition, because electricity remains out in some rural areas, some employers and employees are having a difficult time communicating. While this is likely a temporary problem, it nonetheless will delay industrial output in some of the harder hit counties and parishes.

ECONOMIC EFFECTS OF HURRICANE KATRINA

While not expected to reduce the economy's long-run growth path, Hurricane Katrina, along with the recovery efforts, will have a significant impact on the economy over the next year.

Though the economic effects of Katrina have devastated the Gulf Coast, the overall impact on the U.S. economy is expected to be a significant (26%) slowdown in the pace of economic growth in third quarter and a more-modest negative effect in the fourth quarter, followed by an acceleration in economic growth in the first half of 2006 compared to pre-Katrina outlook as reconstruction efforts begin in earnest. (See Table 1 below.)

Preliminary Estimates of Economic Damage from Hurricane Katrina. Based on preliminary analysis, the extent of damage to residential and business capital stock totaled \$71 billion, 70 percent of which was residential housing and personal property. Much of the remaining loss was oil and natural gas production facilities and refining capacity.

Expected futures prices of gasoline for September rose 36 percent, based on fears that a significant amount of damaged energy plants and equipment would remain off-line for a long time. However, significant progress had already been made.

At the peak of the hurricane on August 30th, 95 percent of daily oil production in the gulf and 88 percent of daily gas production was "shut in". These numbers have been drastically reduced. By September 16th, just over half (56%) of oil production remained shut in (most due to problems with onshore infrastructure) and just a third of natural gas production remained off-line. While tight energy supplies will continue going forward, concerns that energy prices, particularly oil and gasoline, will remain at their immediate post-Katrina levels have thankfully not proved to be accurate, evidenced by the fact that futures prices for gasoline have fallen by 22 percent since late August and prices at the pump have also begun to moderate.

Still, the loss of energy production has been significant. Moreover, the rise in energy prices in the wake of the hurricane will have a sizable impact on consumer spending, since gasoline purchases alone account for close to 3 percent of consumer purchases.

The loss of production in other areas of the economy from displaced workers, estimated at over 300,000, will further cut into economic growth in the second half of the year.

While the destruction caused by Hurricane Katrina will slow GDP growth significantly in the second half of this year (see detail below), the recovery efforts, some of which are underway but most of which are still being conceptualized, will have a positive effect on the economy. For example, rebuilding residential capital destroyed by the hurricane could require upwards of 50,000 single family starts and 10,000 multifamily starts by mid-year 2006.

Economic Outlook Post-Katrina. Hurricane Katrina is expected to slow economic growth by more than a percentage point to 3.2 percent growth in the third quarter. This is 26 percent slower than the 4.3 percent pace assumed in the pre-Katrina scenario (see Table 1.)⁵ Similarly modest (3.3%) economic growth is expected in the fourth quarter as well.

Much of the slowdown comes from a 19 percent reduction in the growth rate for consumer spending which accounts for 70 percent of the economy. The displacement of hundreds of thousands of residents of Gulf Coast states as well as higher energy prices (which lowers consumers' disposable incomes) will cut deeply into consumer spending in September (the last month of the third quarter) and later in the fourth quarter. Instead of rising by 4.3 percent, consumer spending will increase by 3.5 percent in the third quarter. While this sounds optimistic, it must be put in the context that consumer spending increased by close to a 9 percent annual rate in July. In the fourth quarter, consumer spending is expected to increase by just 2.4 percent.

Growth in capital spending by businesses is expected to slow by 50 percent in the third quarter and increase by just 3.9 percent, the slowest pace since the first quarter of 2003. Later in the fourth quarter, the pace of business investment will accelerate and grow by 6.6 percent as the rebuilding of damaged infrastructure begins.

From the slowdown in both consumer spending and business investment, manufacturing output will increase by just 3.1 percent in the second half -- 40 percent slower than the 5.1 percent pre-Katrina baseline.

The CPI will likely increase by close to 6 percent in the third quarter as result of higher energy prices. However, as supply comes back on line, the inflation rate is expected to slow to 2.7 percent in the 4th quarter and rise just 2 percent in 2006.

Anticipated reconstruction efforts in the first half of 2006 (particularly in the first quarter) and moderating energy prices will create a see-saw effect for the economy and for manufacturing, both of which will not only accelerate, but grow faster than in the pre-Katrina scenario.

GDP is expected to increase by 4.1 percent in the first half of 2006, or 28 percent faster than the pre-Katrina baseline. At the same time, manufacturing production will increase by close to 6 percent during the first six months of next year before slowing to more modest growth later in the year. In summary, while job dislocations and damaged production capacity will steer the economy into troubled waters in the months ahead, faster quickening growth and job creation will make for smoother sailing next year.

Mr. STEARNS. Thank the gentleman. Mr. Dow, welcome.

STATEMENT OF ROGER J. DOW

Mr. DOW. Thank you, Chairman Stearns and Ranking Member Schakowsky and members of the committee for this opportunity to

⁵SAAR (Seasonally Adjusted Annual Rate). Based on NAM projections using the Washington University Macro Model.

testify on the dramatic impact of Hurricane Katrina on travel and tourism in the Gulf Coast region.

My name is Roger Dow. I am President and CEO of the Travel Industry Association of America, known as TIA. It is a nonprofit organization representing all segments of the travel industry. It is a \$600 billion a year industry, employing one out of every eight jobs in the U.S. are travel-related. My views are also part of the—our partner, strategic partner, the good work done by the Travel Business Roundtable, known as TBR. Together, we represent the public policy interests of the travel and tourism industry to Congress and to the Administration.

Hurricane Katrina had a devastating blow in three States, as you heard from my colleagues. Many places were wiped out, entire communities gone. The immediate and sudden shutdown of the travel industry business occurred. I visited both Louisiana and Mississippi 2 days ago, and that with industry and political leaders, and television does not do any justice to the horrible impact there. When you see it firsthand, you see the devastation of what has happened to buildings, to lives, to people's livelihood, but it also doesn't do justice to the resilience and the attitude of the people that are in that area.

As you look at what is going on, we first of all salute the brave young men and women who have been part of the rescue effort, but that area, I mentioned one in eight jobs nationally, in that area of the country, one in five jobs are travel-related, very—and—impact to the travel industry. That is 260,000 jobs that are related to the travel industry that are basically gone. Business travel, convention travel, leisure travel is not occurring as of this moment in those affected areas, and that is a loss of \$50 million a day.

The travel industry has been very generous, and I think had a very wide range of impact, and that is detailed in my written submission, and knowing that the Red Cross charitable organizations, the—both former President Bush and Clinton and many efforts of companies and organizations to raise money, we decided not to focus our efforts, of the travel industry and Travel Business Roundtable, on raising dollars, but we decided to focus on jobs, because that is what people need.

On September the 15th, TIA, TBR, and a travel coalition made up of 32 associations of our business, launched a job—free job site called www.katrinajobs.org, with the opportunity of helping people find jobs, and it is widely being promoted in the Southeast by the Red Cross. The men and women that are on the frontlines, the people who have these jobs, deserve our very best effort. This job bank not only will lift their spirits, but as a way of hope and a way of employing their families, and getting back on their feet in the future. The great thing about jobs in our industry is they are portable, and they have a very wide range of capabilities, from maintenance people to housekeepers to customer service people to accountants to managers.

Attached to my written testimony is a legislative relief package presented by both TIA and TBR on behalf of the unified travel industry; and dozens of companies and associations worked on putting this together. The package includes several things, detailed information on the impact, specifically, on travel and tourism in the

area of the Gulf effected. Examples of what the industry is doing, but very specifically, recommendations aimed at the travel industry employees and owners who are affected in the area. I can't stress enough that this is not a legislation recommendation or request that focuses on our entire industry, but focuses on the area affected, and it is very time-limited. We don't wish to use a tragedy to advance issues that are important to our industry.

We applaud everything that is being done to quickly recover the—all the appropriations that are being done right now. Some of the areas that we are covering in our—in my testimony and our recommendations are already underway in tax relief packages. What we pledge is to help Congress, work with Congress, side by side with the Administration and everyone, on a nonpartisan basis, to just make this happen to improve the lives of people.

There is three distinct impacts I think we should focus on. First, the complete devastation of the entire travel in the related area. The facilities are gone. They are not there in many case. You go along Gulfport, you see the antebellum homes, they are gone, like someone scraped them right away, and they weren't taken away by construction. They are just gone. The facilities are gone, destinations are gone, but more important, the homes and livelihood of the people are gone. We grieve for them, but we salute the people that are rescuing and working with them day by day.

You have heard other people say the damage to our energy production, refinement, and transmission, is only going to be aggravated by Rita. When you look at the travel industry, we need a reliable supply of gas, diesel, and jet fuel at reasonable and fair prices. We say—unify—that we have to address this energy policy and what goes on, because our national mobility is truly at stake.

And the third thing, and less obvious, and to—maybe, perhaps, to the public and policymakers, is the long-term ramifications. Around the world were broadcast scenes that made America look like a renegade State, the scenes of the looting, the violence, and all of that were played throughout the world. We have been focusing on a negative image that is a factor many—caused by many factors, not just policy, but on many factors, and we have got to address it. We couldn't let—as you look around the world—the fear, the despair, the what looks like lack of concern for people that people see is going to hurt an already slumping image. We are measuring the impact on this, as visitors begin thinking twice of whether they come to this country or they don't for business and pleasure.

Image matters. As you look at the economy, the impact of international travel, \$100 billion a year, 1 million jobs, 50 million people coming to America and saying “you know, they are not like that. They are really a generous, caring people.” We need that. That is critical to our national defense, to have people returning home and saying I saw it firsthand. In conclusion, what we pledge as the travel and tourism industry is to work side by side in whatever we need to do, and to help get those people back on their feet, help them get jobs, and bring these areas back to their vibrancy.

Thank you. I will entertain questions when asked.

[The prepared statement of Roger J. Dow follows:]

PREPARED STATEMENT OF ROGER J. DOW, PRESIDENT AND CEO, TRAVEL INDUSTRY
ASSOCIATION OF AMERICA

The Travel Industry Association of America (TIA), in conjunction with the Travel Business Roundtable (TBR), appreciates the opportunity to present this testimony regarding the impact of Hurricane Katrina on travel and tourism in the Gulf Coast region. Chairman Stearns, Ranking Member Schakowsky and members of the subcommittee, TIA, on behalf of the entire travel and tourism industry, applauds you for holding this important hearing to more closely examine the impact of Hurricane Katrina on various parts of our economy, including travel and tourism, the leading industry in the Gulf Coast area.

BACKGROUND ON TIA AND TBR

TIA is the national, non-profit organization representing all components of the \$599.2 billion U.S. travel and tourism industry. TIA's mission is to represent the whole of the travel industry to promote and facilitate increased travel to and within the United States. Our 1,700 member organizations represent every segment of the industry, and are dedicated to helping grow the U.S. economy and provide jobs and economic opportunity for individuals and communities all across America. We are here today also representing our strategic partner, TBR, a CEO-based organization of more than 75 member corporations, associations and labor groups. TIA and TBR are formal partners, working with Congress and the Administration to advance the public policy interests of the U.S. travel and tourism industry.

THE IMPACT OF HURRICANE KATRINA ON GULF COAST TOURISM

Hurricane Katrina dealt a devastating blow to the lives of millions of individuals across the Gulf Coast region and brought life and commerce to a sudden stop. We grieve for the many whose lives were lost in this natural calamity. We also want to salute the thousands of first responders and volunteers who have saved thousands of lives and are now tending to the physical and emotional needs of hundreds of thousands of displaced people. These dedicated individuals make us all proud by their acts of bravery and selflessness.

Approximately 260,000 men and women were employed in travel-related jobs in the impacted region, and nearly all of those jobs have been disrupted for some period of time. More than \$18 billion in travel-related spending occurs annually in the affected counties in Louisiana, Mississippi and Alabama. With the total absence of leisure, business and convention travel to the region, approximately \$50 million in travel-related spending is now lost every day.

THE TRAVEL INDUSTRY RESPONSE TO KATRINA

The travel industry response to Hurricane Katrina has been generous and wide-ranging, from American Express' \$1 million donation to the American Red Cross, to Harrah's Entertainment extending pay to displaced employees for 90 days and establishing a \$1 million Employee Recovery Fund. Other examples include the National Restaurant Association's upcoming National "Dine Around", which should raise millions, and Cendant Corporation providing housing and rental vehicles for emergency response personnel.

While we knew it made little sense to launch fundraising or humanitarian efforts that would simply duplicate the excellent work already underway, the travel industry at the national level wanted to weigh in and do our part to help travel and tourism colleagues in need. Our organization, TIA, working in conjunction with our strategic partner TBR and the Travel & Tourism Coalition—a coalition of 37 travel-related national associations—believes one of the best contributions we can make to the relief effort is to help find employment for the thousands of displaced workers in the region.

On September 15, we launched a free job bank, www.katrinajobs.org, which is aimed at finding temporary new employment for workers displaced by the hurricane. While the site is focused on finding new jobs for travel industry employees, it is not limited just to these workers. So many workers in the Gulf Coast region were employed by our industry, and we are working with our members nationwide to provide employment opportunities through this job bank site. As well-trained employees working in a variety of service jobs in travel and tourism, we believe these men and women possess transferable skills and could fill any number of new jobs both within and outside of the travel industry. We are very grateful to the American

Red Cross, which has chosen to help promote our new www.katrinajobs.org website in the southeast region.

As mentioned above, there are numerous travel-related companies that are extending pay and benefits for their employees, or have relocated those workers to other facilities around the country to continue their employment. Many other companies are providing housing and other necessary services for these valuable travel industry associates. These quarter-million men and women are critical to the industry since we are service providers, and these front-line employees help provide millions of visitors with a tremendous travel experience. They deserve no less than our very best at this critical time. Highlights of the industry's response are included in the attached legislative relief package.

TRAVEL AND TOURISM INDUSTRY LEGISLATIVE RELIEF PACKAGE

We applaud the Bush Administration and this Congress for its quick response in passing emergency appropriations packages to speed up relief to the region. This was our nation's greatest natural disaster to date, and as immediate and long-term solutions are formulated, we stand ready to assist those affected by the hurricane.

To that end, the travel and tourism industry has drafted a legislative relief package to assist employees, employers and owners directly impacted by Hurricane Katrina. A package of information has been transmitted to Administration and Congressional leaders which includes the following items: (1) Industry Overview: Reviving the Gulf Coast and U.S. Travel and Tourism; (2) Economic Impact of the Travel and Tourism Industry in the Gulf Region; (3) Industry Contributions to Katrina Relief; (4) Travel and Tourism Legislative Requests. This document is included as an addendum to this written testimony.

In this legislative relief package, we focus first on assistance to displaced workers, which are the heart and soul of the U.S. travel industry. These millions of men and women are the spirit and driving force that has made our industry so successful. We applaud all that has been done by both the public and private sector to help displaced workers with housing, food and medical care. Many of the tax provisions suggested in our package are aimed at improving the lives of those employees directly impacted by the hurricane.

Federal tax deductions and credits, much like after the events of September 11, 2001, can also be utilized to assist business owners in the impacted counties to begin to rebuild and repair. It is important that we highlight the fact that we are seeking only emergency tax relief for the affected region that would be both time-limited and targeted in focus. These recommended tax provisions are detailed in the attached document and include such items as Private Activity Bonds, Work Opportunity Tax Credits, Leasehold Improvements, Bonus Depreciation, Small Business Expensing, and others.

While the focus is currently on recovery, the focus will shift to rebuilding the devastated communities in the Gulf Coast region. Once facilities are rebuilt and it is appropriate once again to invite visitors to enjoy the unique sights, sounds, arts and culture and culinary pleasures of this area, it is important that the federal government provide limited funds to the three impacted states, as well as local travel organizations, to promote travel to the region.

Leisure, business and convention travelers will need to hear that the area is open for business, and be encouraged to visit once again. We believe that limited federal funds could help these three states, as well as local destinations, promote effectively to recapture visitors and begin to support the region's number one industry—travel and tourism.

HURRICANE KATRINA'S THREE DISTINCT IMPACTS ON TRAVEL

Broadly speaking, Hurricane Katrina had three distinct and dramatic impacts on travel and tourism in the Gulf Coast region of Louisiana, Mississippi and Alabama, and across the entire country.

First and most importantly, Hurricane Katrina killed hundreds, uprooted hundreds of thousands of local residents, and destroyed entire communities. Many of these areas are special places of welcome and hospitality for millions of domestic and international travelers. From the world-class cuisine and music of New Orleans to the historic mansions, casinos, resorts and beaches in Mississippi and Alabama, these historic and fun-filled places have been damaged or destroyed.

The work of rebuilding the physical infrastructure has already begun, and once the cleanup is completed, hundreds of thousands of new homes and businesses will emerge. It is our hope and prayer that all affected communities in the Gulf Coast region will be rebuilt and that residents will return to a place they can call home

again. And we hope those communities will be stronger and more viable than ever, with travel and tourism continuing as the leading industry in providing exciting job opportunities and economic growth for the future.

The second impact of Hurricane Katrina on the travel and tourism industry comes through the strong blow dealt to the energy production, refinement and transmission capabilities of the region. While some of the energy impacts are perhaps more short-lived (e.g. pipeline supply disruptions), production of oil and gas has been greatly reduced, and already tight refinery operations have been disrupted.

Reliable transportation fuels provided at reasonable cost levels are absolutely essential to the future growth and success of the travel industry. Without ready access to gasoline, diesel and jet fuel, this nation's ability to travel for personal and business reasons would come to a grinding halt. In the weeks following Hurricane Katrina, fuel shortages (and rumors of shortages) drove up prices and stranded some motorists. Again, we must address our nation's energy needs in order to ensure a reliable supply of fairly priced fuels. Nothing less than national mobility is at stake.

The third and final impact of Hurricane Katrina is much less obvious to the American public and policymakers in Washington, but is potentially more devastating over the long term. Fair or not, the images viewed abroad by hundreds of millions of international citizens of the looting, lawlessness and human despair in New Orleans only helps to worsen the deteriorating U.S. image abroad. Even when the media was reporting wild rumors as fact, international audiences were left with the distinct impression that this city's residents were abandoned by multiple levels of government and preyed upon by roving gangs of thugs. The news coming out of New Orleans was in many instances misreported, but audiences around the world viewed chaos and human despair that only served to reinforce the most negative portrayals of the United States and her people.

The U.S. travel industry has grown more concerned over the past few years about America's sinking image abroad. Recent polling demonstrates that a substantial number of prospective visitors from Europe and Asia are now less inclined to visit our nation for business and pleasure due to negative perceptions about our culture and politics. Again, the scenes from the Gulf Coast region transmitted by satellite around the world only helped to bolster this less than flattering opinion about the United States and may serve as a further disincentive for international visitors to travel here. And this growing negative perception matters significantly since international travel to the U.S. results in nearly \$100 billion in visitor spending annually, supporting nearly 1 million U.S. jobs.

In conclusion, I want to pledge on behalf of the entire U.S. travel industry that we will work with Congress, the Administration and all involved charitable organizations to help in the rebuilding and restoration of the Gulf Coast Region. We want nothing less than a region that is even more economically viable, more culturally vibrant and that offers hope and opportunity to all its citizens—a place for millions to call home once again. Hurricane Katrina has served to awaken the hopeful spirit and generosity of the American people. In that spirit, let us continue to move forward with the rebuilding of lives and communities to provide a better tomorrow for the citizens of Louisiana, Mississippi and Alabama.

Mr. STEARNS. Thank you. Mr. Niskanen, welcome.

STATEMENT OF WILLIAM A. NISKANEN

Mr. NISKANEN. Thank you. We have all been concerned about the nature and magnitude of the human tragedy caused by Hurricane Katrina, but the recovery from this tragedy will depend importantly on both what the Federal Government does and what it does not do. My remarks focus on the appropriate policy responses to Katrina.

Maybe important, do not impose any form of rationing or price controls on food, gasoline, rents, and so forth. Price increases following a supply shock serve two very important functions: they allocate the available supply to those who value it most, and they encourage those who own or produce the goods to increase the available supply. The historical record documents that price controls lead to other less desirable forms of rationing, waiting lines, bribery, favoritism, the substitution of lower quality goods and services.

In the absence of price controls, the price of oil has roughly doubled since 2002, with little general economic cost. In contrast, the economic effects of the oil shocks of the 1970's were more severe and lasted longer, primarily due to the extended price controls. The specific increase in the price of gasoline since Katrina was due to the temporary reduction of U.S. refining capacity by about 10 percent, not due to some antisocial action by oil companies and distributors. I doubt whether there is a single documented incident of what is carelessly called price gouging in the absence of a supply—restricted supply. At the time of Katrina, I predicted that the price of gasoline would fall quickly as electric power, employees, and the supply of oil were restored to the refineries, and that is what has happened. The national average price of gasoline fell, declined, \$0.17 a gallon last week, and I expect that it will continue to do so, to decline to the pre-Katrina average of August of \$2.50 a gallon, unless supplies are again disrupted by Rita or another hurricane.

Katrina also destroyed several hundred thousand housing units that will take longer to replace. In the meantime, the rents on available housing, especially on the Gulf Coast, will increase. Governments should not respond to this condition by imposing rent controls. Such controls misallocate the available supply, and reduce the incentive to increase the supply.

There is a good case, however, consistent with our natural generosity, to make ample assistance to those households who are displaced by the Hurricane Katrina, and I contend there is ample room within the \$62.5 billion already approved for such assistance. Such assistance, however, should be temporary, say for a year, and should be independent of where the displaced households choose to live. Returning to the Gulf Coast, specifically, should not be a condition for receiving such assistance.

Now, I recommend a package of three types of vouchers, a housing or a rental voucher of maybe, say, \$10,000 a year, that would have a budget cost of about \$6 billion. The Secretary of Education has already approved, budgeted for \$1.9 billion, to provide school vouchers, and the voucher will be usable in any—either a private or public school anywhere in the country. President Bush has proposed a training and labor voucher of \$5,000 per head of household, that would probably cost about \$3 billion. Such direct assistance to each displaced household allow them to make their own choices about where the combination of available housing, schools, and jobs best meets their interests. The combination of—this combination of direct assistance would be far preferable to the FEMA plan to build massive mobile home villages on open land in the Gulf Coast, villages with no trees, stores, schools, churches, or community organizations that make a house a home. The total budget cost for this package of direct assistance to displaced households, assuming that there are no more than about 600,000 displaced households that have no home to which to return, should be less than \$15 billion. One wonders what activities financed by the \$63.5 billion already approved should have any higher priority. The primary additional measure to protect both the Treasury and consumers would be to assure that the vouchers are allocated to and used only by the households displaced by the hurricane.

A third point. All too often, I hear otherwise thoughtful people question whether, how, or we—how—or we should rebuild New Orleans. My response is that this is not our problem. This—these questions should not be resolved by the Federal Government. No one individual or group here in Washington has either the information or the incentive to make the decisions that best serve the interests of the Gulf Coast residents. Nationalize the decisions would make them unusually vulnerable to pleas by special interests for the Federal Government to favor some post-Katrina composition of commerce that does not necessarily serve the interests of the local residents. Most of the key decisions about how the Gulf Coast cities should be rebuilt, and the post-Katrina composition of commerce on the Gulf Coast, should be made by the local property owners and the proximate State and local governments.

The primary remaining Federal role, I contend, other than the assistance to the displaced households described above, should be to rebuild that part of the local infrastructure for which the Federal Government has the historical responsibility. It is important to avoid any increase, in the Federal response to Katrina, relative to its prior response to natural disasters. This would create a moral hazard problem by increasing the expectation of local residents and governments about the future Federal response, reducing their own incentives to make those decisions that would either avoid or reduce the cost of future disasters. It is especially important for the Federal Government to avoid financing any rebuilding of private property that was not covered by flood insurance. Although flood insurance is heavily subsidized, many, even most property owners in New Orleans, do not buy this insurance, expecting the Federal Government to bail them out whether or not they are insured. This has already led to a big decline in the share of flood-prone properties that have flood insurance. One potential Federal measure that deserves serious consideration would be to require flood insurance on all properties for which there is a mortgage from a federally regulated or insured financial institution. But in the meantime, the Federal Government should not make this problem worse by financing the rebuilding of private property that is not covered by the flood insurance.

Now, on the above three issues, Congress faces dilemma: the commendable incentive to be generous to the victims of natural disaster may increase the costs, both to the Treasury and to the local residents of future disasters. As you address the Federal responses to Hurricane Katrina, I encourage you to keep this in mind.

Thank you.

[The prepared statement of William A. Niskanen follows:]

PREPARED STATEMENT OF WILLIAM A. NISKANEN, CHAIRMAN, CATO INSTITUTE

Good morning. My thanks for this opportunity to testify about the commerce and consumer protection implications of Hurricane Katrina.

We have all been concerned about the nature and magnitude of the human tragedy caused by Hurricane Katrina, but the recovery from this tragedy will depend importantly on both what the federal government does and what it does not do.

1. Maybe most important, do not impose any form of rationing or price controls on food, gasoline, rents, etc. Price increases following a supply shock serve two important functions: they allocate the available supply of goods to those who value it most, and they encourage those who own or produce the goods to increase the available supply. The historical record documents that price controls lead to other, less

desirable, forms of rationing—by waiting lines, bribery, favoritism, and the substitution of lower quality goods and services.

In the absence of price controls, the price of oil has roughly doubled since 2002 with little general economic cost. In contrast, the economic effects of the oil shocks of the 1970s were more severe and lasted longer, primarily due to the extended price controls. The specific increase in the price of gasoline since Katrina was due to the temporary reduction of U.S. refining capacity by around 10 percent, not to some anti-social action by oil companies and distributors. At that time, I predicted that the price of gasoline would fall quickly as electric power, employees, and a supply of oil were restored to the refineries. And that is what has happened. The national average price of gasoline, for example, declined by 17 cents a gallon last week, and I expect that it will continue to decline to the pre-Katrina average price in August of \$2.50 per gallon, unless supplies are again disrupted by another hurricane.

Katrina also destroyed several hundred thousand housing units that will take longer to replace. In the meantime, the rents on available housing, especially on the Gulf Coast, will increase. Governments should not respond to this condition by imposing rent controls. Such controls, as with price controls on gasoline, misallocate the available supply and reduce the incentive to increase the supply. In addition, there is no reason to place the burden of providing housing for the displaced households on the owners of existing housing.

2. There is a good case, consistent with our natural generosity, to make ample assistance to those households displaced by Hurricane Katrina, *and there is ample funding within the \$62.5 billion already approved for such assistance*. Such assistance, however, should be temporary, say for a year, and should be independent of where the displaced households choose to live. Returning to the Gulf Coast, specifically, should **not** be a condition for receiving such assistance.

The federal budget cost of a rent voucher for displaced households, say of \$10,000, would be around \$6 billion, and the voucher should be usable anywhere in the country. The budget cost of a school voucher for all displaced school children would be about the same, and the voucher should be usable at either a public or private school anywhere in the country. President Bush's proposal for a training and labor voucher of \$5,000 per head of household would cost about half this amount. Such direct assistance to each displaced household allows them to make their own choices about where the combination of available housing, schools, and jobs best meets their interests. This combination of direct assistance would be far preferable to the FEMA plan to build massive mobile home villages on open land on the Gulf Coast—villages with no trees, stores, schools, churches, or community organizations that make a house a home. The total budget cost for this package of direct assistance, assuming there are no more than 600,000 displaced households that have no home to which to return, should be less than \$20 billion. One wonders what activities financed by the \$63.5 billion already approved should have a higher priority. The primary additional measure to protect both the Treasury and consumers would be to assure that the vouchers are allocated to and used only by the households displaced by Hurricane Katrina.

3. All too often, I hear otherwise thoughtful people question whether and how "we" should rebuild New Orleans. My response has been that these questions should not be resolved by the federal government; no one individual or group here in Washington has either the information or the incentive to make the decisions that best serve the interests of the Gulf Coast residents. Nationalizing these decisions would make them unusually vulnerable to pleas by special interests for the federal government to favor some post-Katrina composition of commerce that does not best serve the interests of the local residents. Most of the key decisions about how the Gulf Coast cities should be rebuilt and the post-Katrina composition of commerce on the Gulf Coast should be made by the local property owners and by the proximate state and local governments.

The primary remaining federal role, other than the assistance to the displaced households recommended above, should be to rebuild that part of the local infrastructure for which the federal government has had the historical responsibility. It is important to avoid any *increase* in the federal response to Katrina relative to its prior response to natural disasters. This would create a "moral hazard" problem by increasing the expectation of local residents and governments about the future federal response. This would reduce their own incentives to make those decisions that would avoid or reduce the cost of future natural disasters. It is especially important for the federal government to avoid financing *any* rebuilding of private property that was not covered by flood insurance. Although flood insurance is heavily subsidized, many property owners do not buy this insurance, expecting the federal government to bail them out whether or not they are insured; this has already led to a decline in the share of flood-prone properties that have flood insurance. One potential fed-

eral measure that deserves serious consideration would be to require flood insurance on all properties on which there is a mortgage from a federally regulated and insured financial institution. But in the meantime, the federal government should not make this problem worse by financing the rebuilding of private property that was not covered by flood insurance.

On the three above issues, Congress faces a dilemma: the commendable incentive to be generous to the victims of a natural disaster may increase the costs of future disasters, both to the local residents and to the U.S. Treasury. As you address the federal responses to Hurricane Katrina, I encourage you to keep this in mind.

Mr. STEARNS. I thank the witnesses. I will start out with the questioning. In my mind's eye, listening to you, the first question I have is what should be the Federal role here, how much to press the Federal Trade Commission, in terms of identifying collusion or dealing with a number of things, whether there is or is not price gouging, and then also, talking about any fraudulent activity.

But at the same time, we have passed \$61 billion, and most of us don't realize where that is going, and as so often happens, that the desire to help out is exceeded by the desire to investigate and bring accountability, and that is where I think a lot of us are concerned.

I will start with my first question for you, Mr. Seesel. Do you have the tools, in your opinion, to deal with fraud that might occur, fraudulent activity? Is there something that you think Congress should do that we haven't done to give you more power dealing with collusion or, perhaps, even identifying price gouging at your agency?

Mr. SEESEL. Mr. Chairman, to begin with, on the consumer protection side, on the situations involving fraud and scams and so forth, I think I have described this morning a fairly full panoply of tools and weapons the FTC has to deal with consumer problems like deception and fraud.

On the antitrust side, dealing with collusion and other antitrust violations, I think the Commission has a full arsenal, also. I think we have—

Mr. STEARNS. You don't need any help from us.

Mr. SEESEL. Well, certainly, Congressman, Mr. Chairman—

Mr. STEARNS. Just more funding.

Mr. SEESEL. As far as funding concern, I—

Mr. STEARNS. I understand that, but I mean in terms of legislative tools to help you to work this problem.

Mr. SEESEL. Well, we have some new tools we are working with now already. As you know, we are conducting an investigation under Section 1809 of the Energy Policy Act, and so that will give the Commission a chance to look at issues of gasoline price manipulation, and prepare a report for Congress after the conclusion of that investigation. But—

Mr. STEARNS. Okay.

Mr. SEESEL. I am sorry.

Mr. STEARNS. But there is no Federal legislation dealing with price gouging.

Mr. SEESEL. That is correct, Chairman.

Mr. STEARNS. And at this point, you have collusion. Do you feel that you can identify what price gouging is? Do you have a definition of it?

Mr. SEESEL. I don't think that we have a definition of it at the Commission, and the definitions I have seen have been quite diverse and quite diffuse, and both at the State and Federal level, I think, it has been hard for people to come to a consensus about what that term means.

Mr. STEARNS. There is some concern about flood-damaged vehicles specifically being restored, re-titled, and sold to unsuspecting consumers. Do you—what is your authority to prevent that?

Mr. SEESEL. I think, Mr. Chairman, that the FTC generally has the view, again, I don't know what the official Commission position is, but in our experience, State motor vehicle divisions and consumer protection authorities are probably in the best position to monitor issues about flood-damaged vehicles being resold in a fraudulent manner.

I don't know that the FTC's current authority doesn't cover that, but I certainly think that—our experiences have been State and local officials deal with that quite actively, and are best suited to do that.

Mr. STEARNS. So you are pretty much equipped to handle it, then. You feel pretty comfortable.

Mr. SEESEL. I think we are.

Mr. STEARNS. Okay.

Now, Mr. Huether, how can Congress reduce the stress on logistic issues from manufacturers that are created by port disruptions and other infrastructure failures. I don't know if you saw the front page of the Washington Times. It shows, in Texas, particularly in the Galveston and Houston, Victoria, Corpus Christi, all the oil and natural gas platforms, as well as the oil refineries, and this huge number, and if this ever—if this Hurricane Rita hits as we expect, I assume all of this there is going to huge damage, so that there will be even more logistic issues for manufacturers and ports and things.

Mr. HUETHER. I thought you—someone was going to ask a question like that, and one of the things I did was I called a number of manufacturers, Mississippi, and Alabama, and Louisiana, and I asked them what are your biggest problems right now? What are your biggest concerns? Where are the bottlenecks?

And they all responded, and they gave me exactly the same answer, and they said the biggest problem right now is the human bottleneck. It is getting employees, trying to locate and find their employees.

Mr. STEARNS. Because they have no names, and they have no—

Mr. HUETHER. And the issue isn't just that they don't have homes, but where they are right now could be between 4 and 5 hours away from the company, and so there are employees who are traveling great distances every day just to go to work. There have been some manufacturers who have actually bought a large number of trailer homes and put them in their plant to house the workers and their families there.

That is one significant issue. The other significant issue is, that is connected with that, is that a lot of the social infrastructure that the—that modern workers use today, such as daycare, are gone, and so even if some workers may be only an hour or an hour and

a half away, a lot of the social infrastructure is gone, so if they have, you know, small children, there is really no way they can get to work, and you know, from a number of manufacturers that I have talked to, that right now is their No. 1 concern, in addition to some supply bottlenecks, in terms of ores, steel, where the Mississippi River is a significant conduit for that. And that has broader implications for areas, you know, country, but just in terms of the areas, specifically, that are most damaged, it is really the human element that is the biggest problem right now.

Mr. STEARNS. Mr. Niskanen talked about these manufactured homes that the government supposedly is going to buy, and he is strongly against that. How do you feel about what he feels, in giving the voucher, instead of the government temporarily buying these or renting?

Mr. HUETHER. Well, I think you would probably have to figure out what was going to be the most efficient way to get workers in a safe location near their base of employment.

Mr. STEARNS. I mean, how can you go it quickly?

Mr. HUETHER. And if this is—and it is basically a short-term phenomenon to begin with.

Mr. STEARNS. Yeah.

Mr. HUETHER. I think that is probably the biggest problem with getting production up right now in some areas, is just making sure that companies and workers can get together, and I think that, on a short-term basis, whatever can be done to try to foster that would probably be—we would probably reduce the downturn in manufacturing output over the next few months.

Mr. STEARNS. You know, I will just follow up. My time has expired. We are going to go around for a second round of questioning, but maybe the solution is not necessarily a voucher, like Mr. Niskanen mentioned, but maybe give some incentive for employers to go out and buy or rent facilities quickly, and then the government doesn't have the obligation for these mobile home, manufactured home, and they are not on the hook for some kind of voucher program, but the employers would take the response. They have the best means of executing this through their business strategy, and just set up whole new areas for them, rent out whole new areas, and things like that, or let them take the responsibility for finding the manufactured home, and give them tax credits or something.

What do you think of that idea?

Mr. HUETHER. I think that is something that should be considered, because I know this is the primary concern of a lot of companies in these areas, is just making sure that their employees, they can get their employees to work, and their employees have a place, a safe place to stay that is somewhere close to the location of business.

Mr. STEARNS. Because the institutional memory for a lot of these employees, you can't get off the street right now, so you have got to get Tom Jones or Bob Smith or Linda Smith, you got to get her to come back, so I would say Linda, I have got you a place to live. I have got a daycare center for you. We are setting up a corporate daycare center. You just come to work. We will take care of all your

needs here, because you are so valuable, we can't—we are going to lose our revenue here.

So anyway, my time has expired. The ranking member.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman.

I think Americans watching what happened became aware of a couple of things. One is that the Federal Government does, in fact, have an important role to play, particularly in its basic function of protecting the safety and security of Americans. But the other thing people saw was a face of poverty in that region, but also, suddenly, the lifting of the veil of poverty that exists in all of our cities. And when we can talk—when we talk about the economy and how we work to restore it in the face of Hurricane Katrina and now Hurricane Rita—and by the way, in that regard, Mr. Chairman, let us be thinking about all of those people in the path, including our colleague, Gene Green, who went home. He is not here right now, because he went home to help his constituents, and close his house, which is in the direct path of Hurricane Rita right now. That is where he is.

When Mr. Niskanen—am I saying that right? Your executive vice president, David Boaz, said something in an article called, on September 19, “Catastrophe in Big Easy demonstrates big government’s failure,” that I think is a problem with the whole perspective on how we even begin to address this problem. And I want to quote from that article. “The suffering visible in the poorest parts of the city, New Orleans, is a perfect example of the failure of the non-ownership society. People had become trapped in dependency, with neither financial nor moral assets to rely on.” Does—are you saying, and that is the way I read it, that somehow, poverty is representative of a lack of morals? I mean, we would all agree that financial assets are lacking among the poor. That is the definition of poverty. But a lack of moral assets? And if we begin with that perspective, of course we would result in the answer that government doesn’t have a role in helping to control the prices that these poor people face, or the housing that these poor people need, and that we don’t have a role to play.

Mr. NISKANEN. The primary point of David’s article was that one important lesson from Katrina is that government failed at every level.

Ms. SCHAKOWSKY. No, I want to know about moral assets. Are the poor lacking in moral assets?

Mr. NISKANEN. I am not going to pass judgment on that. I think it is quite clear that poverty—

Ms. SCHAKOWSKY. So could be.

Mr. NISKANEN. I said that it is quite clear that poverty, in many cases, is the consequence of failure to get a job, of having children out of wedlock. These are very strong correlates of poverty. If you regard that as a moral response, a moral problem, I think that I would probably agree with you.

Now, that is not necessarily all poverty. I have often been asked the most important decision in my life, and I say choosing the right parents. We are all a product of our parents and our upbringing, and the people who—many of the people in poverty are second, third generation poverty. And I think to some extent, the—to some

extent, I think it is appropriate to say that poverty is the consequence of a moral problem.

One thing that we have found, for example, since the 1996 Welfare Reform Act is that the number of welfare recipients has been cut in half, the number of single mothers—

Ms. SCHAKOWSKY. The poverty level has not been cut in half, has it, Mr. Niskanen?

Mr. NISKANEN. Of those people who are no longer welfare recipients, they are—and they have a higher income now than they did before, with welfare, because of the earned income tax credit. They have a job. We have transformed welfare from a payment for not working to a payment to supplement the earnings of low skilled people. And I think that was an entirely appropriate action. We are not going to eliminate poverty, however, until ultimately, the primary correlates of poverty are changed.

Huge proportions of children born to single mothers, for example, is probably the single most—the strongest correlate of poverty. Now, this was—

Ms. SCHAKOWSKY. You know, I need to—I think you have sufficiently answered my question, and quite frankly, I am so pained by your answer that—you, I think, are among the minority of Americans who may have been watching those people crying for help in the Convention Center, at the stadium, and thought that these are people who must be there because of some moral lacking. I am just shocked at that, but I am glad it is on the record.

And speaking of these individuals, one of the things, Mr. Hall, that has been done is that the prevailing wage in New Orleans for construction workers right now, is \$9.55 an hour; mason tenders get \$7 an hour, some of the lowest prevailing wages in the country. I am trying to understand how contracts have been issued, no-bid contracts, I understand, cost plus contracts, I think, for companies like Halliburton, and yet, for the workers, we are going to say that the prevailing wage rule, Davis-Bacon, will be lifted, and I am wondering if you think that it is important to our economy, or to the economy of these individual families, that workers could be paid as little as \$5.15 an hour, which is the minimum wage, and if those families could support themselves on those low wages, or pay for healthcare, and might they need government help, and be entitled to government help, to support them? In other words, a further subsidy for those companies who have gotten the no-bid contracts.

Mr. HALL. Well, I hate to not answer your question, but that is getting pretty far out of my expertise, since my focus is on the economic data, and what we are likely to see, in term of the national data. So I am not sure I have an—

Ms. SCHAKOWSKY. So abandoning the prevailing wage, and allowing wages to decline is not in your area of concern?

Mr. HALL. Well, no. Certainly, I am concerned with the performance of the economy overall, the performance of the economy in that area. I know they are going to have great hardship. We—I would like to see them, obviously, recover quickly, not only through construction, but taking care of people in the meantime. But it is just, the Department of Commerce, the part of commerce that I deal with, we just—that is not a policy issue I deal with. I am sorry.

Mr. STEARNS. The gentleman from California, Mr. Radanovich.

Mr. RADANOVICH. No questions.

Mr. STEARNS. No questions. I will start with the second round then.

Mr. Dow, you testified that approximately \$50 million in travel-related spending is being lost every day.

Mr. DOW. Correct.

Mr. STEARNS. But from my business experience, if I was going to take a vacation in New Orleans, and I saw that, I would go somewhere else, and so much of the travel that occurred in the Gulf Coast region, wouldn't that be diverted to other areas of the country? And they might go to Las Vegas. They might go to San Francisco. They might go somewhere, other places, and I would think that that would sort of change that \$50 million number. Wouldn't that be true?

Mr. DOW. My statement was that \$50 million lost daily to that area, you are correct—

Mr. STEARNS. Every day.

Mr. DOW [continuing]. That a portion of the travel would go to other areas, but there is a great deal of travel that goes to that area, that is business related, to doing business in that area, will not occur. Immediately after Katrina, we asked one of our members, Expedia, to take a look at what their reservations were, coming from the United States, and 2 weeks before Katrina, the travel to the U.S. from outside of the U.S. was up 5 percent, but 2 weeks following, it was down 10 percent. So that is travel that did not occur.

You are correct. Some of the travel will move to other areas, but there is a lot of travel that would just be canceled. The trip, the convention, New Orleans, for example, hosts conventions of 5,000 to 10,000 people. You cannot find anywhere in the U.S., Las Vegas, Chicago, New York, that can house 5,000 people on a month's notice. These cities are full, so that business totally goes away, and doesn't happen, except for a year from now.

Mr. STEARNS. Okay. Would staff give Mr. Hall this picture from the Washington Times, which shows all the oil and natural gas platforms, oil refinery, from Corpus Christi, Galveston, all the way up to New Orleans? I just want you to look at this. This is—will show you the enormous depth of our capacity for digging and refining oil, and I guess my question to you, Dr. Hall, I am not asking you to be very specific, but you gave pretty good figures dealing with GDP from these three, Alabama, Mississippi, and Louisiana, and the effect that Katrina had.

Considering you have a hurricane, maybe 4 level, heading into those areas, what do you suspect the impact would be? Just give a scenario. You have done this many times, I mean, I assume that you could make an educated guess of what we are looking for, in terms of we know the GDP of Texas, we know the impact of this. I mean, are we going to look at a possibly another huge spike in oil, and—I mean, if you can, just take me through those scenarios as best you can. I am not going to hold you to anything. This is all hypothetical, but I mean, it would be helpful for Members of Congress to realize in advance what we are, perhaps, looking at.

Mr. HALL. Well, since at Commerce, we do produce the data that comes out, I really make an effort to not try to forecast the data, because we really do produce it, and we really will measure the impact of these things.

I can certainly say that the impact, possible impact on the energy market, is certainly—would certainly be a thing that I would be most concerned about, with the impact of Rita. I can tell you, for example, that the top three ports for imports of crude oil are Houston, New Orleans, and Port Arthur, and that accounts for about 55 percent of our oil imports. So that would be a serious concern, and then, of course, all the associated refineries and such in the area would be a big concern.

Obviously, higher gasoline prices would be a great burden on people that pay the higher gasoline prices. Most of what I have tried to focus on, though, is the idea that although this is a burden for people buying gasoline, a burden for people with higher prices, in terms of the big picture of the economy, that the economy is strong enough, and the growth is strong enough, to weather these sorts of things, these sorts of impacts. We have done it in the past, maybe not as large of an impact as Katrina has, in many ways, but it is something that the economy does very well with.

Mr. STEARNS. Well, I can understand your trepidation here to try and do a little forecasting. But if we are looking at what happened with Katrina, and we see what happens to Rita, and you see that is even much more so than New Orleans, in terms of the oil capacity, I would suspect it is going to be something big.

Now, the question is for many Members of Congress, if the President or anyone comes back with another package, in addition to the one we are talking about for New Orleans and Louisiana, then a package for this, this is going to be another concern of how we do this, and what the Federal role would be.

If you don't mind, I would like to go to you, Mr. Niskanen, and ask you a little bit about—the House unanimously approved a plan to offer tax assistance to people and businesses that were dislocated by the hurricane. I don't know if you are familiar with that package, that tax package, and it asks for tax expansion for—tax breaks for charitable contributions. I guess, given your idea on limited role of the Federal Government, what would be Cato's opinion on that tax package we did?

I mean, I am sort of in your camp in many ways, so I am asking, because we are going to be looking at these tax packages, and I am just curious what you thought, if you knew about yesterday, what you could give me your feeling about it.

Mr. NISKANEN. Well, I don't think the Federal Government should try to shape the nature of the recovery, should try to shape the post-Katrina composition of commerce in the area.

Mr. STEARNS. It should all be done on a local level.

Mr. NISKANEN. I think the decisions should be made at a local level. Now, I went out of my way to endorse a plan of helping the displaced households with substantial assistance for rents, for schooling, and for jobs.

Mr. STEARNS. Would that include businesses, too?

Mr. NISKANEN. Pardon?

Mr. STEARNS. Would that include businesses, too?

Mr. NISKANEN. It would not include businesses, and I think that we should be very careful not to reward business owners or private property owners who have not taken out flood insurance. The Federal Government enormously subsidizes flood insurance, but then it bails out people whether or not they have the flood insurance. And we have had a dismal record with the flood insurance, in which a lot of claims of Federal insurance are for the second or third claim on the same piece of property. People have taken their claims from an earlier storm and reinvested in the same place. They have made no change in their location. And that, both the flood insurance system, I think, has to be corrected. I think we need higher premiums in flood insurance. I think we probably should have required flood insurance, in much the same way that we have required auto liability insurance, as a condition for getting mortgages from Federal insured or regulated mortgages.

Now, the kind of enterprise zone that is being proposed for the Gulf Coast is a grant, in effect, to restore businesses in the Gulf Coast, rather than particularly to help the people who were displaced by the storm. And I am much less enthusiastic about that, because it will be—it will have the effect of biasing the composition of business to those for whom the tax breaks make most of the difference. That depends upon how capital-intensive they are and other matters.

Mr. STEARNS. Are you—

Mr. NISKANEN. I think we should not make a Federal commitment to restore the Gulf Coast to a pre-Katrina situation. We should, for the most part, I think, let that development happen by the decisions of private property owners and local governments.

Mr. STEARNS. In those areas, the people live in high risk areas. You know, in this case, it is flooding, but in some cases, California, it is earthquake, and some places, it is fire. Do you think the Federal Government should adopt a policy to discourage housing in those areas that have high risk areas, are vulnerable to these natural disasters, by perhaps not providing insurance? I guess, what policy would you suggest in this case?

Mr. NISKANEN. If people want to rebuild an area, I think they should be required to take out flood insurance. If they use a mortgage from a federally insured or regulated mortgage financial institution.

Mr. STEARNS. Subsidized by the Federal Government or not?

Mr. NISKANEN. And I would raise the premiums on the flood insurance. The premiums are too low. We have had to bail out the Federal flood insurance system by some billions of dollars just in recent weeks. So I think they should be—should make their own decision, consistent with the required flood insurance, and higher premiums for flood insurance.

Mr. STEARNS. Mr. Dow, you said you had some legislation. You talked about a proposal for tourist promotion funding. What is the specific dollar amount that you are talking about in your legislation?

Mr. DOW. I don't have the specific dollar amount with me right now. What it is is we just ask for tax credits for funding for advertising promotions. It is so critical to promote these areas, because as the world and the Nation looks at this, in my former life in the

hotel business, when there is trouble in, let us say, Nassau, people don't go to Bermuda. And it is so critical to get these people back, to understand the geography. So we are asking for tax credits for the activities that the industry would fund. We are not asking for money, specifically, a large amount of money.

Mr. STEARNS. Okay. My time has expired. The ranking member.

Ms. SCHAKOWSKY. Mr. Hall, or Dr. Hall, excuse me. You were talking fairly optimistically about the recovery from the spikes in the gas prices, but—and energy prices. This is from a report that was issued by the Congressional Research Service on September 13, "The Macroeconomic Effects of Hurricane Katrina." And here is what they say: "Why would higher energy prices be a cause for broader economic concern? Eight of the nine postwar recessions were accompanied by sharp increases in the price of oil. The last four recessions followed this pattern: 1973-75 recession followed the oil embargo; the double dip recession of 1080-82 followed the second oil shock, which was caused by the Iranian Revolution and the Iran-Iraq War; 1990-1991 recession followed the oil spike induced the Gulf War; and the 2000 recession followed a sharp rise in oil prices from 1999 to 2000." So your optimism is perplexing to me.

Mr. HALL. Well, I guess two things. One is, we have already had—pre-Katrina, we had a pretty serious spike in energy prices, and—

Ms. SCHAKOWSKY. True.

Mr. HALL. And it raised prices for a lot of people, but it didn't sort of eke out into the rest of economy. Core CPI, in fact, has gone down, over the last 5 months. That may not last, but so far, the economy has weathered that very nicely.

The other thing I can say is, in terms of the impact of previous spikes, we have had a significant improvement in energy efficiency in this country. Over the past 10 years alone, we have become 20 percent more efficient. Over the past 30 years, we are 50 percent more efficient. So I am optimistic in that sense, that we have become more energy efficient. We are a very large economy. While it is hardship for people, I still do think it is something that we can—

Ms. SCHAKOWSKY. I come from the Chicago area, the Midwest largely heats with natural gas, where the Energy Information Agency has projected as much as a 70 plus percent increase in natural gas prices. That was before Rita, and we don't know what is going to happen, and now, headlines showing Rita could equal \$5 a gallon gas. It is hard for me to imagine, let alone the individual families that are going to be affected, how it is not going to put further strains on the economy of all those areas as well.

Mr. HALL. You know, I don't disagree that it is difficult for people paying those prices, it is difficult for lots of families, especially families with lower income, where energy spending is a higher share of their spending. That is a real problem. But if you look at overall consumer spending, 5.5 percent of that is on energy products.

Ms. SCHAKOWSKY. And when you see an increase of 71 percent, doesn't that increase the percentage?

Mr. HALL. Yeah, absolutely—

Ms. SCHAKOWSKY. And that would be for renters, which doesn't necessarily show in how much goes for energy.

Mr. HALL. Well, no, actually it does, absolutely does, and it probably will bump out some additional consumer spending on other things. But still, my point is, though, that although it is hardship and it is difficulty, it still—

Ms. SCHAKOWSKY. And small businesses that are going to have to absorb those costs.

Mr. HALL. Absolutely.

Ms. SCHAKOWSKY. Okay.

Mr. HALL. Well, my focus has been on the economy overall.

Ms. SCHAKOWSKY. Yeah.

Mr. HALL. You know. The forecasts on the impact of Katrina, we don't do the forecasting, but they top out anywhere from a half a percentage point to somewhere over 1 percent. Well, we had a forecast of 4 percent growth in GDP this quarter. That is a long way from a point off GDP growth. My point is, in terms of worrying about recessions and such, this is not—this is hopefully not going to impact, or will not impact the rest of the economy in—

Ms. SCHAKOWSKY. Is it Huether?

Mr. HUETHER. Yeah. Right.

Ms. SCHAKOWSKY. Let me ask you this. If—the construction companies are very interested in getting some protection from any kind of—from liability as they rebuild. How would you feel if you are a manufacturer, and you want to rebuild your plant, about having the inability to get relief from a construction company that did their work in a shoddy manner, and a dangerous manner? This is legislation that they are pushing, and will come to the Congress and ask to support.

I just wondered what your Association might feel about that, or—

Mr. HUETHER. Well, I think that we would typically want the type of insurance protections that are typically associated with reconstruction. And if you wouldn't mind, I would like to kind of answer a little bit about your question to Dr. Hall.

Ms. SCHAKOWSKY. Well, answer that one, though. So you would not be in favor of that exclusion from liability for construction companies?

Mr. HUETHER. I don't know that the NAM has taken a position on that right now, and it probably would be best for me to answer you later, after this is over, because I don't know if the NAM has—

Ms. SCHAKOWSKY. And in that regard, by the way, Mr. Chairman, if I could submit some other questions in writing, I would appreciate it.

Mr. STEARNS. Absolutely.

Mr. HUETHER. But in addition, you know, one of the major concerns that manufacturers have, and you mentioned about natural gas is, you know, the fact that about 40 percent of natural gas is used by industry, more than consumers. More than retail, more than any other sector. It is manufacturers, primarily, that use natural gas. And one of the big concerns that manufacturers have isn't necessarily that we have had a spike recently, but the main concern is that while there is a world oil price, and if oil does come

down, refining capacity gets back up, then, the price of gasoline is going to moderate.

The big concern that companies have right now is that natural gas prices aren't going to come down, mainly because there is not a world market price for natural gas. It is determined by local supply and demand. And I think that one downside for the economy going forward is continued very high natural gas prices. Now, there has been some legislation that was passed, that is going to help increase natural gas supply, but we have to remember putting things into context right now, the U.S. economy has four liquid natural gas terminals in the country. That is equal to the number that South Korea has. Their economy is a tenth the size of ours. If you look at Japan, they have 26 terminals. If you look at Europe, they have anywhere between 16 and 20, and they are building more. So you know, we all know that probably the use of natural gas, going forward, is not going to decline, and so I think it is important that the government, you know, help promote an expansion of natural gas supply going forward, because it is going to be a long term concern going forward.

Mr. STEARNS. Well, I think we completed. I am just going to ask Mr. Seesel a question, and I am asking you to answer yes or no. This is a yes or no question for you, and I know how—your staff is cringing right now, that I am going to ask this, so we don't want a maybe here.

You announced yesterday that you are investigating price gouging of gasoline. Is that correct? I think you had some kind of press conference or something like that?

Mr. SEESEL. I testified yesterday before the Senate Commerce Committee.

Mr. STEARNS. Yeah.

Mr. SEESEL. The Commission is looking at gasoline price manipulation under Section 1809.

Mr. STEARNS. So you have started this investigation.

Mr. SEESEL. Yes. It is underway.

Mr. STEARNS. Okay. Should the Federal Government, the question is, should the Federal Government have the explicit authority to investigate and prosecute price gouging, just yes or no?

Mr. SEESEL. In my personal judgment?

Mr. STEARNS. Well, your professional—both—you can give me your personal, but I am more interested in your professional opinion.

Mr. SEESEL. I think my answer to that, Mr. Chairman, would be no.

Mr. STEARNS. Okay. Okay. What is your personal?

Mr. SEESEL. No, that is what I meant.

Mr. STEARNS. Okay. So—

Mr. SEESEL. I can't speak for the Commission officially, but—

Mr. STEARNS. Okay. Okay. Well, I think we have had a pretty good hearing. I will allow the gentlelady, the ranking member, to also ask if she has another question, but Mr. Huether, we had a little question on the Bacon Act, and there was some question she brought up about the suspension of it, and obviously, I support that. She does not support it. I mean, is there anything you would

like to add to that, because in some cases, to expedite this, it—there might be an argument for the suspension.

Mr. HUETHER. I don't like—repeat other economists, but this really gets into an area that is kind of outside my expertise.

Mr. STEARNS. Okay.

Mr. HUETHER. And I would be happy to go back to the NAM and answer the question later in writing, if that is okay—

Mr. STEARNS. Mr.—

Ms. SCHAKOWSKY. We could just fight it out, Mr. Chairman.

Mr. STEARNS. Fight it out. Mr.—Dr. Niskanen, would you comment about the Bacon Act, and it being suspended? You might want to help Mr. Huether here.

Mr. NISKANEN. I think Davis-Bacon is a bad law, and I would be pleased to see that it will at least be suspended for a period of time. I think that it should trigger a more general investigation of Davis-Bacon, to see whether it is really a law that we ought to go forward with. But I think my impression—

Mr. STEARNS. In the short term.

Mr. NISKANEN [continuing]. Of Davis-Bacon right now is that—do you have the authority to suspend it for a period of time, but not to—but not indefinitely.

Mr. STEARNS. Right. That is—and you support that idea.

Mr. NISKANEN. And I think that it should trigger, maybe, an investigation by this committee or some other element of Congress to—as to whether this is appropriate labor legislation for the future.

Mr. STEARNS. Well, just for your information, there has been legislation as long as I have been here in Congress, and it has always failed. So the Davis-Bacon Act has succeeded in the House floor to continue, even though it has been offered. But if you had any suggestions, I am going to close the hearing. If there is anything else you would like to say?

With that, I want to thank you for your patience while we went to vote, and I think we had a very substantive hearing, and I thank you for your time.

[Whereupon, at 1:10 p.m., the subcommittee was adjourned.]