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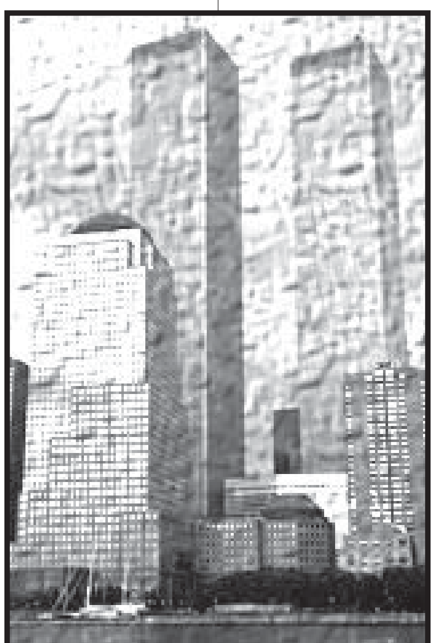
9/11: The Uncertain Implications for State and Local Governments

By Michael T. Childress

The terrorist attacks on September 11, 2001, and subsequent anthrax incidents have left an indelible mark on the United States. While the calculable short-term cost was as much as $80 billion in property damage and around 3,000 fatalities,[1] the long-term consequences are less obvious or certain. It appears, however, that the resulting shift in U.S. foreign, defense, and domestic policy could have significant and far-reaching implications for state and local government responsibilities, the economy, public finance, and civic engagement. It is important for state and local policymakers to anticipate the future challenges and opportunities created by these events so that appropriate long-term policy responses are developed for the changed world ahead.



An Emerging Federalist Revival

Perhaps the most obvious consequence of the terrorist attacks for state and local governments is the overall increase in their responsibilities, portending an emerging federalist revival. For example, the states' legislatures and governors have developed long lists of homeland security initiatives, which include everything from bolstering the public health system to ensuring agriculture and food safety to developing the capacity for dealing with a chemical, nuclear, or biological attack.[2] The states are clearly hoping the federal government will pay for these initiatives, but the federal government has stated that "it is critical that all levels of government work cooperatively to shoulder the costs of homeland security."[3] As the locus of responsibility for launching and financing new initiatives shifts from the federal to the state and local level, so too will the relative authority among them.

More Heavy Lifting and Better Preparation. These attacks will likely accelerate the shift in fiscal federalism, where state and local governments assume responsibility for tasks traditionally provided by the federal government. As the FBI and Coast Guard shift their focus to counterterrorism, for instance, state and local officials anticipate playing a larger role in fighting illegal drug traffic, investigating white-collar crimes, and handling search-and-rescue missions. In addition to taking on new roles, long-standing ones like public health, public safety, and network security are *expanding*, and underlying the increased workload is the expectation that these functions be performed *better*.

Evidence, however, suggests that much work remains to be done. To ascertain the level of preparedness for a chemical or biological terrorist attack, RAND conducted a national survey from March to September 2001, involving more than 1,000 state and local organizations, ranging from fire departments to emergency medical services to offices of emergency response. Their survey results show "few organizations have a plan in place sufficient to address [a] moderately sized chemical and biological incident."[4] Even a year after the September 2001 attacks, studies show that many of these organizations are not prepared for a terrorist attack. The Federation of American Scientists, for example, issued a report in which they noted that most emergency responders (police, fire, emergency medical technicians, etc.) feel they are not prepared for a weapon of mass destruction (WMD) emergency.[5] And a survey of schools by the National Association of School Resource Officers found that "an overwhelming majority (95 percent) of school-based police officers feel that their schools are vulnerable to a terrorist attack and a substantial percentage of officers (79 percent) do not feel that schools within their districts are adequately prepared to respond to a terrorism attack upon their schools."[6] In the future, state and local governments will be expected to do more, and do it better.

Enhanced Coordination and Cooperation. As the authority and responsibility of state and local governments increase, so does the necessity that they work together cooperatively. Yet, the relationships between and among states, counties, and cities can best be described as competitive. The states vie with each other for everything from industrial locations to federal dollars. Cities, counties, and regions within states are similarly competitive. However, a new culture of cooperation along with

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INSIDE: An Interview with Terrorism Expert Bruce Hoffman, Survey Results About 9/11, Conference Details, and *Scanning Kentucky* mechanisms for coordination will be needed to ensure the effective and efficient implementation of homeland security initiatives among the country's 87,900 government jurisdictions.[7] This includes 3,034 county governments, 19,431 municipal governments, 16,506 townships, and 35,356 special districts—which play a role in everything from fire protection to supplying water.[8] Due to the sheer number of government units in the United States, it will not be easy to orchestrate coordinated activities among them.

Kentucky is representative of the challenge. It is home to 120 counties, 467 municipalities, 55 health department districts, 126 hospitals, 15 fire rescue districts, 146 water supply districts, 12 state police posts, 14 emergency management areas, 9 natural resource districts, 12 transportation districts, and numerous fire and police departments. Moreover, 48 Kentucky counties—representing 53 percent of the state's population—share a border with 48 other counties in 7 different states. Consequently, planning for or responding to a terrorist incident in Kentucky, or neighboring state, would require a cooperative and coordinated response from a multitude of governmental units and the private sector. As responsibilities increase, policymakers will be challenged to enhance coordination and cooperation in a political culture that has not always encouraged it.

Altered Economic Landscape

Similar to a devastating earthquake that reorders the landscape—wreaking considerable damage while simultaneously revealing previously undiscovered natural resources—the terrorist attacks have shifted the economic landscape to reveal new economic opportunities. The demand for everything from facial recognition software to a safer smallpox vaccine to certifiably-safe food has increased, thereby creating opportunities for the well-positioned entrepreneur. Mostly, however, the immediate shock waves following the terrorist attacks jolted the U.S. economy. In the face of long delays at border crossings and ports for people and goods, businesses began questioning the wisdom of "just-in-time" delivery, and business travelers and vacationers stayed close to home. The U.S.-Canadian border became a virtual parking lot, disrupting the daily flow of roughly 500,000 vehicles and $1.4 billion in commerce.[9] Hotel and motel occupancy rates throughout California declined by double digits, as did air traffic volumes.[10] In Florida, where tourism is the largest industry, visitor rates decreased by 19 percent in the final quarter of 2001.[11] The Greater Louisville Convention & Visitors Bureau blamed the terrorist attacks, as well as a slow economy, for a 6.8 percentage point decrease in the hotel-motel occupancy rate from 2000 to 2001.[12] Consequently, lower profits and job losses in the travel and tourism business followed in the wake of the attacks. While many businesses have recovered from the initial shock, some sectors of the economy—like the airline industry—continue to feel the effects. Ultimately, the threat of terrorism could alter the nation's economic landscape across multiple sectors and endure for years.

International Trade and Commerce. The vulnerability of the international trading system to terrorist attack could affect future prospects for global commerce. The value of foreign trade to the U.S. economy has increased steadily over the last 30 years. U.S. trade, which includes exports and imports of both goods and services, is currently equal to about 25 percent of the U.S. gross domestic product and has increased markedly during the last several years (see Figure 1). On a national basis, the exporting of goods (not including services or imports) is equal to about 8 percent of the gross national product. Moreover, in some states this percentage reaches into double digits, led by Vermont (22.3 percent), Washington (14.6 percent), Texas (14 percent), Louisiana (12.2 percent), and Michigan (10.4 percent). Kentucky is 11th at 8.1 percent.[13]

But expanding global trade could be adversely affected in the event of a future terrorist incident involving a weapon of mass destruction concealed inside a conex container. These shed-like containers account for 60 percent of the volume of world trade,[14] and 50 percent of the value of U.S. imports.[15] According to a recent *New York Times Magazine* article: "Two thousand containers enter America every hour, on truck and trains and especially on ships sailing into more than 300 American ports,"[16] which translates into around 16 million conex containers each year.[17] Unfortunately, fewer than 2 percent of these containers are actually opened and inspected,[18] since (in the words of the Coast Guard Commandant) "slowing the flow long enough to inspect either all or a statistically significant random selection of imports would be economically intolerable."[19]

Obviously, were such a horrific scenario to enfold, it would irrevocably change the system of global trade and profoundly affect the economies of many states—potentially causing up to a $1 trillion in damage and disruption.[20] How big is $1 trillion? It is more than the annual gross product of every state except California, whose gross state product in 2000 was $1.34 trillion.

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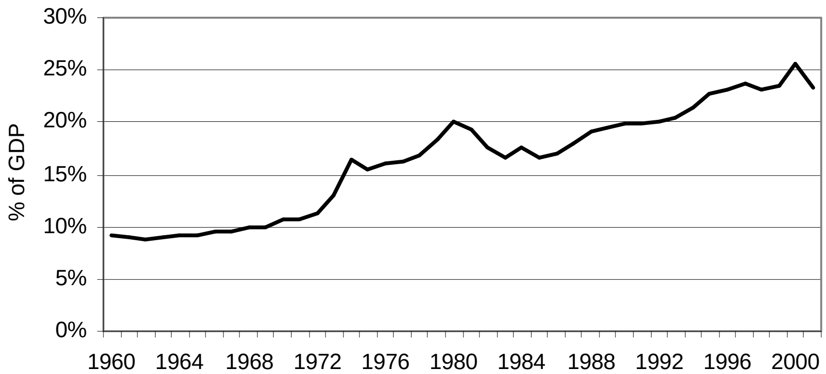
FIGURE 1
U.S. Trade Relative to National Output, 1960 to 2001



Note: Trade is measured as imports and exports of goods and services.

Regardless, in an effort to ensure this scenario never happens, higher security at ports and borders is increasing the cost of goods by an estimated 1 to 3 percent, which some economists believe is sufficient to have a large effect on trade patterns.[21] States with high levels of exports are vulnerable to the vagaries of global trade and should closely monitor the impact that increased security has on future trade patterns. Business decisions on the location of facilities and factories could be affected by the cost and security considerations related to trade, thereby affecting the strategies and incentives used by states to attract and retain businesses.

Immigration. The Bush administration's Homeland Security Budget for 2003 concentrates on four specific policy initiatives, one of which is "securing America's borders."[22] The president has proposed $11 billion for a variety of programs to monitor the border and track the arrival and departure of non-U.S. citizens.[23] While some have challenged the efficacy of tougher border enforcement actions,[24] this new initiative could significantly reduce the flow of illegal immigrants into the United States, a population estimated at between 5 million[25] and 9 million.[26]

TABLE 1
Estimated Illegal Immigrant Population for Top 20 States of Residence, October 1996

All States	**5,000,000**
1. California	2,000,000
2. Texas	700,000
3. New York	540,000
4. Florida	350,000
5. Illinois	290,000
6. New Jersey	135,000
7. Arizona	115,000
8. Massachusetts	85,000
9. Virginia	55,000
10. Washington	52,000
11. Colorado	45,000
12. Maryland	44,000
13. Michigan	37,000
14. Pennsylvania	37,000
15. New Mexico	37,000
16. Oregon	33,000
17. Georgia	32,000
18. Washington DC	30,000
19. Connecticut	29,000
20. Nevada	24,000
Other	330,000

Source: INS

TABLE 2
Immigrant Population for the Top-20 U.S. Metro Areas Compared to Kentucky's Metro Areas, 2000
(% foreign born)

1. Miami, FL PMSA	50.9
2. Jersey City, NJ PMSA	38.5
3. Los Angeles-Long Beach, CA PMSA	36.2
4. San Jose, CA PMSA	34.1
5. New York, NY PMSA	33.7
6. San Francisco, CA PMSA	32.0
7. Orange County, CA PMSA	29.9
8. McAllen-Edinburg-Mission, TX MSA	29.5
9. Laredo, TX MSA	29.0
10. Salinas, CA MSA	29.0
11. El Paso, TX MSA	27.4
12. Bergen-Passaic, NJ PMSA	25.7
13. Brownsville-Harlingen-San Benito, TX MSA	25.6
14. Fort Lauderdale, FL PMSA	25.3
15. Merced, CA MSA	24.8
16. Yuma, AZ MSA	24.0
17. Oakland, CA PMSA	24.0
18. Visalia-Tulare-Porterville, CA MSA	22.6
19. San Diego, CA MSA	21.5
20. Santa Barbara-Santa Maria-Lompoc, CA MSA	21.2
194. Lexington, KY MSA	4.0
203. Clarksville-Hopkinsville, TN-KY MSA	3.7
245. Louisville, KY-IN MSA	2.7
253. Cincinnati, OH-KY-IN MSA	2.6
312. Evansville-Henderson, IN-KY MSA	1.4
327. Owensboro, KY MSA	1.0
331. Huntington-Ashland, WV-KY-OH MSA	0.9

Source: U.S. Census Bureau

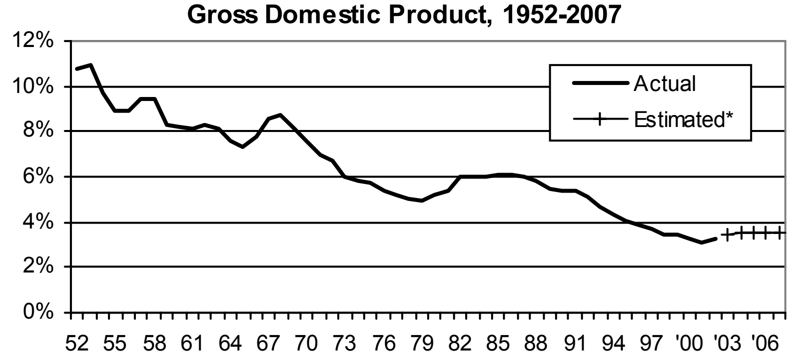
Moreover, public opinion toward (legal) immigration has become somewhat more negative since September 11. A Gallup Organization poll conducted before the terrorist attacks (June 2001) revealed that 41 percent felt immigration levels should be decreased compared to 42 percent who would like to maintain the current level.[27] However, a June 2002 Gallup poll found that "49% of Americans believe immigration levels should be decreased, 36% believe they should be kept at their present levels, and 12% think they should be increased."[28] Similarly, 62 percent said that immigration was a good thing for America in June 2001, compared to 52 percent in June 2002.[29]

A decidedly negative shift in public opinion about immigration and/or a successful reduction in the number of illegal immigrants could hold long-term implications for the U.S. economy. The U.S. labor market depends upon immigrants for a significant portion of its labor supply; this includes everything from computer programmers to restaurant busboys to nurses. In fact, during the past decade immigrants accounted for roughly one third of the increase in the size of the workforce,[30] and from 1996 to 2000 the "foreign born constituted nearly half of the net labor force increase."[31] According to Federal Reserve Chairman Alan Greenspan, immigration policy will exercise a considerable impact on the U.S. economy over the long-term.[32] Thus, to the extent that legal and illegal immigration are reduced, states will be challenged to bolster the composition of their workforce by other means, which might require increased funding for adult education and job training programs to enhance their existing labor pool. Clearly, states and regions with higher levels of immigrants are more likely to be affected by changes in immigration policy (see Tables 1 and 2).

Changing Defense Policy and Base Realignment and Closure. Counterterrorism has arguably become the new organizing principle for U.S. foreign and defense policy, suggesting implications as profound as those resulting from the onset of the Cold War.[33] The Bush Doctrine, which is based on the idea of *preemption*, represents a significant departure from established U.S. military doctrine and will require the transformation of the nation's military force structure. President Bush made these points at the 2002 graduation exercise at West Point, "Our security will require *transforming the military* … a military that must be ready to strike at a moment's notice in any dark corner of the world. And our security will require all Americans … to be ready for *preemptive action* when necessary to defend our liberty and to defend our lives (italics added)."[34] The transformation of military force structure will have significant implications for base realignment and closure, which will in turn affect state and regional economies.

Since the Base Realignment and Closure Act of 1988 (BRAC), which was designed to streamline the military and achieve cost savings, was passed, 97 major closures and 55 major realignments of military installations have taken place.[35] The next round of BRAC is scheduled for 2005, and the Pentagon currently estimates that the nation has between 20 and 25 percent more base capacity than is needed, indicating that more installations will be realigned and closed.[36] A principal factor determining an installation's future will be its homeland defense value. The installations and units best suited for the evolving military doctrine are in the best position to ensure their continued existence.

FIGURE 2
U.S. Defense Spending as a Percentage of Gross Domestic Product, 1952-2007



*Source: Calculations by the author. *Estimates do not include the cost of a war with Iraq.*

Military installations are important to states' economies. For example, the military spends about $4 billion in Kentucky each year, mainly due to Fort Campbell and Fort Knox.[37] In Utah, Hill Air Force Base employs more than 20,000 and pumps an estimated $1.8 billion annually into the state's economy,[38] while Fort Stewart "represents a $1.85 billion-dollar annual economic generator" for Georgia.[39] One can cite examples like this for every state. Due to the economic impact these installations have on state and regional economies, policymakers need to pay increased attention to the geopolitical arena and understand how it affects their state's military units and installations.

Lower Economic Growth. Another implication of changing defense policy is the increase in defense and homeland security expenditures. When measured in constant 2002 dollars, the 2003 defense budget will be one of the largest since 1950.[40] However, when measured as a percentage of gross domestic product (GDP), near-term defense budgets are projected to be lower than during the 1980s or 1990s (see Figure 2). Indeed, the Office of Management and Budget projects that defense spending in 2006 will be about 3.3 percent of GDP, which is significantly less than the 1980s average of 5.8 percent or the 1990s average of 4.1 percent.[41] Nonetheless, these projections are based on the assumption that the war on terrorism can be fought without a massive increase in defense spending—an assumption that will be tested if the United States goes to war with Iraq. Preliminary estimates of a war with Iraq range from $50 billion to $200 billion, indicating that future defense spending could go even higher.[42] Increased defense spending over the long term lowers economic growth because it diverts resources from more economically productive uses in the private sector.

Another factor affecting economic growth is the cost of the terrorist attacks to American *business.* Estimated at $151 billion, the cost equals just over half the total earnings of the FORTUNE 100 companies in 2001.[43] This includes $18 billion for workplace security (e.g., more guards and metal detectors), $15 billion for information technology security (e.g., backup systems), $65 billion for logistical changes (e.g., transportation costs, warehouses), $12 billion in additional travel costs (e.g., airport waits), $35 billion for insurance, and $6 billion for employee absenteeism. Since many of these costs are recurring, they can exert sustained downward pressure on the nation's long-term economic growth. According to Richard Berner, Morgan Stanley's chief U.S. economist, the cost over time could be a 0.5 percentage-point reduction in annual growth in domestic output.[44] Economists at the Paris-based Organization for Economic Cooperation and Development (OECD) have estimated the long-term impact of increased private *and* public spending for security and defense at about 0.7 percent *lower* real gross domestic product.[45] However, some reports indicate that businesses are not allocating huge resources to increased security, either in the form of more guards or better network security.[46] As time passes without another terrorist attack, the sense of urgency about increased security spending will almost certainly wane.

The war on terrorism is unlike any other America has waged. While the Cold War *seemed* permanent, the war on terrorism may well be permanent.[47] Given the nature of the threat—that a handful of people using weapons of mass destruction could inflict horrendous damage—we can never assume the threat is gone. And while the cost of protecting ourselves is high, the cost of not protecting ourselves is clearly higher. Consequently, we have entered a permanent war economy with lasting and somewhat uncertain implications.

Enduring Focus on Public Finance

The war on terrorism will be expensive for state and local governments. In fact, according to a survey conducted in June 2002 by Deloitte Consulting, Inc., homeland security expenditures by federal, state, and local governments, and the private sector could range between $98 billion and $138 billion in 2003,[48] or between $340 and $480 for every American. By comparison, education expenditures, the largest spending category for government, were around $483 billion in 1999 or about $1,780 for every American.[49]

Increased governmental responsibilities and the possibility that economic growth will be lower than otherwise over the long-term virtually ensures an enduring focus on public finance. The reason is simple: as the economy goes, so does government revenue. In fact, the Congressional Budget Office (CBO) is forecasting a 60 percent decline in the federal budget surplus from 2003 to 2012, the steepest decline in tax revenue since 1946.[50] While there are many reasons for the declining surplus, economists partially attribute it to a weak economy and increased spending for homeland security. Meanwhile, state and local governments have their own fiscal problems. According to the National Conference of State Legislatures (NCSL), 43 states reported budget gaps by April 2002 that totaled $37.2 billion by the end of the 2002 fiscal year.[51] And budget shortfalls at the state level are contributing to the financial problems of cities. A recent survey conducted by the National League of Cities (NLC) found that for the first time since 1993 a majority (55 percent) of city finance officers said "their cities are less able to meet their city's financial needs in 2002, compared to 2001."[52] According to NLC President Karen Anderson, mayor of Minnetonka, Minnesota, "Lower sales and tourism tax revenues and higher security spending translates into hard times for cities … it means that in some cities, residents won't be getting the services they deserve because city budgets have been squeezed too tight."[53]

Future Revenue and Expenditure Problems. As barren as the public finance landscape is today, it could get worse in the future. A number of economic and demographic trends indicate that state and local revenue systems might not be adequate in the future. Three vital sources of state and local government general revenue are sales taxes (20 percent), property taxes (17 percent), and income taxes (13 percent).[54] However, individuals are receiving a growing portion of their income from nontaxable sources, consumers are purchasing a larger amount of untaxed services and avoiding the sales (or use) tax through Internet or catalog purchases, and the aging of the population will reduce some state and local tax receipts while increasing some expenditures. Furthermore, Medicaid expenditures, the second largest item in most state budgets, accounts for 20 percent of all state spending and has been increasing annually at a double-digit rate. Medicaid expenditures increased by 11 percent in fiscal year 2001 and 13.4 percent in fiscal year 2002,[55] with CBO projecting an average annual growth rate of 9 percent between 2001 and 2012.[56] All of this has led one analyst to conclude, "State finances will be constrained quite tightly over the next several years even if the economy recovers nicely from the current recession."[57] Consequently, it is likely that the cacophony for reforming or modernizing antiquated revenue systems will grow louder in the future.

Volatile Receipts. In addition to future receipts possibly being lower than expected, they could also be much more volatile. The war on terrorism will be ongoing, episodic, and unpredictable. The one thing markets hate more than anything is *uncertainty*, and war creates a lot of uncertainty. Since the late 1990s, the direct relationship between the direction of the stock market, for example, and government receipts has become more apparent.[58] Consequently, the states' somewhat depleted budget reserve trust funds (i.e., rainy day accounts) will be needed to help moderate future revenue volatility. Yet, aggregate state budget reserves could decrease to $13.2 billion this year, a significant drop from $31.5 billion reported two years ago.[59]

Increased Competition for Federal Dollars. State and local governments depend upon the federal government to directly or indirectly fund an array of programs ranging from health care to education to transportation to corrections. Nationally, federal transfers account for about one fifth (18.9 percent in 1999) of the general revenue that finances state and local government spending—Kentucky is at 22.7 percent. However, in some states federal transfers account for over one quarter of general revenue, led by Montana and North Dakota (28.1 percent), Wyoming (26.7 percent), South Dakota (26 percent), West Virginia (25.5 percent), Tennessee (25.3 percent) and Vermont (25.3 percent).[60] However, at the 2002 National Governor's Association summer meeting, the governors appealed to the federal government for additional funding to defray Medicaid costs. They were told by a Bush administration official present at the meeting to "look elsewhere for funding help."[61] State and local governments are likely to hear this response with increasing regularity due to greater competition for federal dollars. Defense and homeland security expenditures are rising to high levels and could go higher. Both major political parties have proposed Medicare prescription drug benefits that could cost between $370 to $500 billion over the next decade. And in less than 10 years baby boomers will begin retiring, which will create enormous fiscal pressure on both Medicare and Social Security.

The prophetic words spoken in November 2000 by Dr. C. Eugene Steuerle, an economist with the Urban Institute, have increased resonance today in our changed world: "There will be extraordinary pressure upon states and localities to self-finance much of what they want to do in the near future."[62] The war on terrorism will be expensive and the future revenue situation for most states and many local governments is bleak. Consequently, the pressure to modernize revenue systems or make difficult choices about spending priorities will increase.

Rising Relevance for Civic Engagement

In an era of fiscal constraint, it is likely that governments will look increasingly to community-based organizations, nonprofits, businesses, and citizens to forge partnerships and relationships to meet new challenges. Indeed, this is already beginning to happen. The Bush administration, for example, has created an organizing framework to marshal volunteers in homeland security efforts. The initiative, Citizen Corps, is described as "a local, community-based initiative to have every American become active participants in the homeland security effort …"[63] Of the numerous programs organized under the Citizen Corps, the Neighborhood Watch Program is probably the best known. Other programs include Community Emergency Response Teams, Volunteers in Police Service, and the Medical Reserve Corps. The citizen volunteers in these programs serve as low-cost extensions to state and local government personnel. As such, these programs allow government to do more with less by encouraging active civic engagement.

There is evidence that the citizenry is responding to the call for civic engagement. Independent Sector conducted a survey on giving and volunteering in response to the events on September 11, and found that "70 percent of people donated time, money, or blood to a charity or nonprofit organization in the four weeks after the terrorist attacks."[64] A public opinion survey conducted in Kentucky during July and August 2002 shows that a significant percentage (30 percent) expressed an increased likelihood of attending meetings of nonprofit, charitable, civic, or community groups since the terrorist attacks.[65] However, it is debatable whether the renewed sense of community will endure. The challenge for policymakers and other community leaders will be to build on this rejuvenated sense of civic engagement, and to facilitate broad-based community involvement in other issue areas besides public safety and homeland security.

There are good reasons for enhancing a community's stock of social capital or civic engagement. Studies have shown a link between participation in civil society and higher levels of prosperity and higher achievement in schools.[66] Brookings Institution researchers Jeffrey Berry, Kent Portney, and Ken Thomson argue that increased citizen participation not only positively affects citizens' perceptions of the communities they live in, but it also increases the legitimacy and enhances the status of governmental institutions.[67] Civil society can also tackle problems such as poverty, illiteracy, and drug abuse that government and the market have failed to eradicate. Some research even suggests that members of communities with strong civil societies enjoy better health and live longer.[68] In the succinct words of Harvard political scientist Robert Putnam, "An impressive and growing body of research suggests that civic connections help make us healthy, wealthy, and wise."[69]

Mounting responsibilities for state and local governments coupled with constrained resources portend rising relevance for civic engagement. Stronger social capital will not only allow government to do more with less, but will also strengthen the ties that bind us in the changed world ahead.

Notes

[1] There are varying cost estimates of the terrorists' attacks. According to estimates by the Organization for Economic Cooperation and Development (OECD), "The destruction of physical assets was estimated in the national accounts to amount to $14 billion for private businesses, $1.5 billion for State and local government enterprises and $0.7 billion for Federal Government. Rescue, cleanup and related costs have been estimated to amount to at least $11 billion." Moreover, insurance losses "are estimated at between $30 billion and $58 billion …" See *OECD Economic Outlook 71,* "Economic Consequences of Terrorism," (Organization for Economic Cooperation and Development, June 2002), 18 July 2002 <http://www.oecd.org>. The U.S. General Accounting Office reviewed several studies on the economic impact of the September 11 terrorist attack on the Twin Towers, and concluded that the most comprehensive estimate of the total losses of the two World Trade Center buildings at $83 billion (in 2001 dollars); this includes both direct and indirect costs. Refer to U.S. General Accounting Office, *Review of Studies of the Economic Impact of the September 11, 2001, Terrorist Attacks on the World Trade Center*, GAO-02-700R, 29 May 2002, 1 June 2002 <http://www.gao.gov>.

[2] Refer to *Let's Roll: A Call for State Action to Protect and Strengthen Our Democracy* (Denver, CO: National Conference of State Legislatures) July 2002, 26 July 2002 <http://www.ncsl.org/programs/press/2001/freedom/pd-execsum.htm> and *States' Homeland Security Priorities* (Washington, DC: National Governors Association Center for Best Practices) 19 Aug. 2002, 26 Sept. 2002 <http://www.nga.org/center/divisions/1,1188,C_ISSUE_BRIEF^D_4303,00.html>.

[3] U.S. Office of Homeland Security, *National Strategy for Homeland Security*, July 2002: 64.

[4] Ronald D. Fricker, Jr., Jerry O. Jacobson, and Lois M. Davis, "Measuring and Evaluating Local Preparedness for a Chemical or Biological Terrorist Attack," RAND *Issue Paper*: 2002. The RAND researchers estimate that "fewer than one-third of all local organizations have plans that address either scenario, with the exception of OEMs' and hospitals' plans for chemical WMD (Weapon of Mass Destruction) incidents… In contrast to local planning, a significantly larger fraction of state organizations have plans (one-half to three-quarters) for these incidents."

[5] Henry Kelly, et al., *Training Technology against Terror*, Federation of American Scientists, 9 Sept. 2002: 9.

[6] *2002 NASRO School Resource Officer Survey*, National Association of School Resource Officers, 25 Sept. 2002, 7 Oct. 2002 <http://www.nasro.org/2002NASROsurvey.pdf>.

[7] The U.S. General Accounting Office has released several documents related to the issue of intergovernmental coordination and cooperation. See, for example, the following documents: GAO-02-1011T, GAO-02-893T, GAO-02-550T, GAO-02-549T, GAO-02-548T, GAO-02-547T, and GAO-02-160T. These are available at the GAO Web site <http://www.gao.gov>.

[8] U.S. Census Bureau, 2002 Census of Governments, "Government Units in 2002," July 2002, 27 Sept. 2002 <http://www.census.gov/govs/cog/2002COGprelim_report.pdf>.

[9] Patrick Lenain, Marcos Bonturi and Vincent Koen, "Security and the economy: Transportation," *OECD Observer,* 28 June 2002, 8 August 2002 <http://www.oecdobserver.org/news/fullstory.php/aid/699/Security_and_the_economy:_Transportation.html>.

[10] Lloyd Dixon, "The Impact of September 11 on the Travel and Tourism Industry in California," in K. Jack Riley and Mark Hanson (eds.), *The Implications of the September 11 Terrorist Attacks for California* (Santa Monica, CA: RAND, 2002): 4.

[11] Jane Weaver, "Backyard Ads Push In-state Tourism," *MSNBC* 7 July 2002, 8 July 2002, <http://www.msnbc.com/news/775748.asp>.

[12] Bill Wolfe, "Terror attacks, recession nick Louisville-area hotel occupancy," *The Courier-Journal* 19 Feb. 2002 <http://www.courier-journal.com>.

[13] These percentages were derived by the author using 2000 data. The export data are from the U.S. Census Bureau, Foreign Trade Division as prepared by MISER. Downloaded 26 July 2002 from <http://www1.miser.umass.edu/trade/strank.html>. The gross state product data are from the Bureau of Economic Analysis, U.S. Department of Commerce. Downloaded 26 July 2002 from <http://www.bea.doc.gov/bea/regional/gsp/>.

[14] Lenain, Bonturi, and Koen.

[15] U.S. Office of Homeland Security 23.

[16] Bill Keller, "Nuclear Nightmares," *New York Times Magazine* 26 May 2002: 28.

[17] U.S. Office of Homeland Security 23.

[18] Keller 28.

[19] U.S. General Accounting Office, *Port Security*, GAO-02-993T, 5 Aug. 2002: 3.

[20] Michael E. O'Hanlon, et al., *Protecting the American Homeland: A Preliminary Analysis* (Washington: Brookings Institution, 2002): 7. Downloaded 30 April 2002 <http://www.brook.edu/dybdocroot/fp/projects/homeland/fullhomeland.pdf>.

[21] Lenain. Also, refer to OECD, "Economic Consequences of Terrorism."

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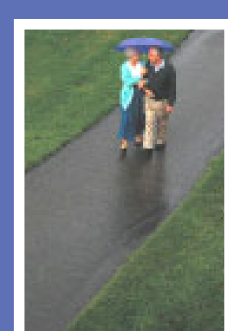


RAND's Bruce Hoffman on the Implications for a Post-9/11 World

Editor's Note: *In the following September 2002 interview with the online learning provider, Fathom <www.fathom.com>, the RAND Corporation's Bruce Hoffman discusses the changing perceptions of terrorism in the year following September 11, 2001, and the importance of multidisciplinary, independent research in identifying long-term strategies to counter and prevent future threats.*

Hoffman, who will be a featured speaker at the Center's November 21, 2002, conference in Owensboro, is Vice President for External Affairs and Director of The RAND Corporation Washington, D.C., office. A widely recognized expert in international terrorism, Hoffman holds degrees in government, history, and international relations, and a doctorate from Oxford. A frequently featured commentator on CNN, NPR, and the Lehrer NewsHour, The New York Times Book Review cites Hoffman's latest book, Inside Terrorism, as essential reading for those who want to understand how best to respond to threats of terrorism.

FATHOM: Between 1968 and September 11, 2001, terrorists, either in the United States or abroad, had killed no more than 1,000 Americans. In the year since September 11, where the death toll was more than 3,000 people, how have perceptions of terrorism changed?

BRUCE HOFFMAN: The most important change is that before September 11, the U.S. somehow believed that it could remain immune to the violence and contentious political currents that were developing around the world and indeed challenging existing orders. Even after the first World Trade Center attack in 1993, in which 6 people were killed and more than 1,000 injured, Americans still believed that they could somehow hermetically seal themselves off from these threats. Following the 1995 bombing of the Murrah federal office building in Oklahoma City, when the U.S. government realized that its adversaries were as much homegrown as foreign, the American public still persisted in believing that terrorism was a problem that happened somewhere else. Terrorist threats were viewed as isolated incidents, or random occurrences that only indirectly affected unsuspecting travelers or Americans in the military or diplomatic corps or stationed abroad, and that was not something we had to worry about occurring in this country.

One of the lessons learned from the September 11 attacks is that we cannot participate in and enjoy the advantages of an increasingly globalized and interconnected world and economy while isolating ourselves and our citizens from the enemies of this system. In retrospect, all of these events may have signaled the beginning of a protracted struggle against the globalized modern world system, and, more specifically, the United States.

FATHOM: What are the defining characteristics of 21st century terrorist activities, and how will international agencies and countries find ways to counter these forms of terrorism?

HOFFMAN: Interestingly, in the 1990s we saw that on the one hand the total volume of international terrorist activity actually declined. But at the same time—although terrorists may have been less active—what we had found is that when terrorists did act they tended to be more violent and more lethal. This had enormous implications for future tactics and targeting that we perhaps did not fully appreciate until September 11th.

Throughout that decade, the percentage of people killed in terrorist operations steadily increased. I think that is a reflection of the re-emergence of terrorism motivated by a religious imperative, where the justifications and the legitimatization of violence are different from secular terrorism, and where terrorists therefore have less compunction to engage in acts that tragically involve the deaths of more people.

One of the defining characteristics of conflict in the 21st century is its reach and profound effects on a global audience. In terms of American security, the September 11, 2001, terrorist attacks showed us that security in the 21st century is going to be very different from 20th-century security, where geographic distance from, and insulation provided by, surrounding oceans somehow enabled the U.S. to remain apart from the maelstrom of conflict in Europe during the early part of the century and then in the Middle East and Asia in the latter part of the century.

The September 11 terrorist attacks underscored for authorities how countering terrorism is not exclusively a local, regional, or international problem, but requires a synergy across all three geographical dimensions because of the open movement of people, goods, and money across borders.

To successfully prevent and counter terrorist activities, authorities must now find ways to work together effectively and dynamically. In this globalized environment, no country can realistically hope to insulate or seal itself off from the threat of terrorism. The most effective means of countering the transnational terrorist threats we are confronted with today is through close cooperation among countries. International efforts to counter terrorism will have to be coordinated particularly to preempt and interdict the flow of resources and logistical support that fuels terrorism today.

FATHOM: What was unique about the tools used in the September 11 terrorist attacks?

HOFFMAN: The advent of what is considered modern, international terrorism occurred on July 22, 1968, when three armed Palestinian terrorists, belonging to the Popular Front for the Liberation of Palestine (PFLP), one of the six groups then comprising the Palestine Liberation Organization (PLO), hijacked an Israeli El Al commercial flight en route from Rome to Tel Aviv. While airplane hijackings have long been a preferred terrorist tactic, one that ushered in this period of modern, international terrorism, the September 11 terrorist attacks were different. What was unique was that the terrorists used this old, long-preferred terrorist tactic, thought about the ways authorities typically respond to hijackings, and utilized the predicted response to identify and then exploit what proved to be an inherent weakness in the air security systems.

The authorities had thought through their responses to airplanes terrorized by bombs, for example, secreted in luggage or hijacked by terrorists for ransom or for some coerced agreement. But they just didn't contemplate that an airplane full of people and fuel would be used as human bomb or missile, hurtling toward a tall building.

Terrorists live to identify and then exploit vulnerability. By using conventional weapons in a unique way, by successfully evading what they knew to be the predicted response from the authorities, the terrorists were able to expose a fatal weakness in our security systems.

FATHOM: How have the October 2001 anthrax exposures affected how the public and the authorities think about the use of and potential threat of biological weapons?

HOFFMAN: The unfortunate legacy of the October 2001 anthrax exposures is that terrorists do not necessarily have to kill thousands to make their targets feel at risk, provided they are using exotic or unique enough weapons.

The widespread fear of anthrax contamination was achieved because of the weapon's vicarious quality—meaning that the attacks were not necessarily confined to one particular target or location but had the potential to radiate outwards through infectious agents or public trafficking of the mail.

Prior to the 2001 anthrax exposures, counterterrorism authorities had thought a lot about bioterrorism—the use of biological agents in terrorist activities—but authorities were still completely stunned by the ease with which terrorists were able to send these agents through the mail and the resulting impact those activities had. We had difficulties responding to and containing those threats, as demonstrated by the fact that the Hart Senate Office Building in Washington, D.C., remained contaminated and closed down for more than four months after an anthrax-laced letter was delivered to U.S. Senate Majority Leader Tom Daschle's office. Not to mention the long closures at several major postal mail sorting stations. The unanticipated challenges faced in decontaminating these sites, and the time that it has taken to do so, illustrates that there is still a lot of work to be done to improve our preparedness and response to bioterrorist attack.

FATHOM: What are the financial implications of the counterterrorism and security initiatives launched after the September 11 terrorist attacks?

HOFFMAN: In my opinion, this is one of the most unfortunate legacies of September 11. One sees heightened security, no matter what the level—whether it's the federal, state or local government, private industries and businesses or ordinary commercial institutions, such as shopping malls. All of these groups are far more concerned with security now, and rightly so, than they were before September 11. But this comes at a cost.

It is hard not to think of how much money could have been spent on searching for the cure for cancer, for other medical interventions, for improving any given country's educational systems, or for other worldwide socio-economic development activities. Instead these funds are being siphoned away and spent on improved physical security measures, more guards, and new technologies because of the tragedy of September 11 and the desire to counter and obviate the threat of future tragedies.

FATHOM: Is there a greater role for academic institutions, think tanks and research organizations to play in advising governments on emerging counterterrorism strategies?

HOFFMAN: Academic institutions, as well as think tanks and policy research organizations, have an enormously important role to play in the fight against terrorism—perhaps an even more important role to play today and in the future than they ever had in the past.

In many instances the government has to contend with threats and challenges that have to be answered that same day—which because of their gravity, have to be addressed immediately. This deprives them of the opportunity to take a longer view of threats they might have to face in the future but that they can begin to prepare for today. The unrelenting crush of daily events and priorities can also deprive authorities of the time needed to study and prepare to counter emerging threats, to address the causes and motivations behind these threats and possibly identify future problems that could be addressed before they manifest themselves in terrorist violence. In other words, if you are consumed on a daily basis with the threat du jour—with legitimate, genuine threats—it is very hard to think about what tomorrow's threat is going to be.

Certainly, the expertise from academic institutions, research organizations and think tanks, such as RAND, are valuable to governments because of their long-range research capabilities. These educational organizations are also useful in informing counterterrorism strategies because academic institutions are ideally equipped to provide the multidisciplinary responses needed to address a phenomenon that erupts, surfaces and flourishes often because of an idiosyncratic combination of factors—historical, economic, religious, cultural, geographical, and so on. Universities, think tanks, and other policy research institutions are very adept at putting together teams of researchers from diverse backgrounds with different approaches that are capable of coming up with new and fresh ideas.

Especially as governments around the world struggle to secure and protect society to an extent that they haven't necessarily anticipated in the past, educational institutions have an enormously important role in providing independent, objective analysis and advice. Whether it's in assisting in the identification of best practices, whether it's independently evaluating new and emerging technologies and policies, or whether it's helping to identify future trends and future threats, academic institutions, think tanks, and policy research organizations are very well poised to contribute on an active basis.

Survey Measures Kentuckians' Responses to 9/11

The Kentucky Long-Term Policy Research Center recently released statewide survey results from summer 2002 that gauge public responses to the terrorist attacks of September 11, 2001 (9/11). The results show how aware Kentuckians are of the federal warning system created in the wake of 9/11, how adequate they believe national spending and local preparedness are, how the attacks have influenced their involvement in civic and volunteer activities, and how citizens would prefer to see revenue generated to combat terrorism.

Awareness of the Homeland Security Advisory System. The Center's survey results show that 60 percent of Kentucky adults have heard of the color-coded Homeland Security Advisory System created six months ago by the White House Homeland Security Office as a way to "disseminate information regarding the risk of terrorist acts to Federal, State, and local authorities, and to the American people." However, only 12 percent of Kentuckians knew that our current nationwide threat level is "elevated."

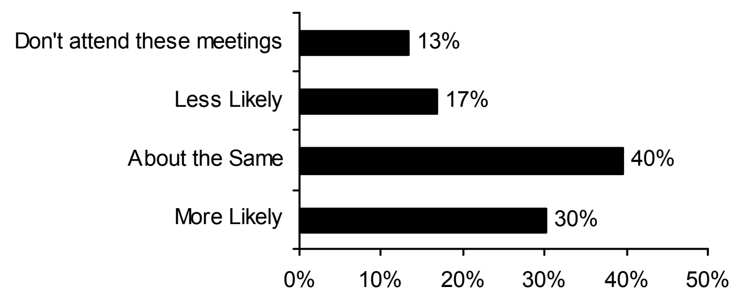
The Homeland Security Advisory System has five threat levels, each identified by a color that corresponds with a level of terrorist threat, ranging from a low-level threat, which is green, to a severe threat, which is red. Of those Kentuckians who reported having heard of the advisory system, only 17 percent knew that the system includes five colors, and only 20 percent of respondents actually knew that the *current* level of alert was elevated or yellow, findings that suggest a low level of awareness about the federal government's principal means of communicating with the public about the risk of terrorism.

Civic and Volunteer Responses. To gain a better understanding of how Kentuckians are reacting to and dealing with the terrorist attacks, the Center asked a series of questions about their post-9/11 civic activities. As shown in Figure 1, the results show that a significant percentage (30 percent) of Kentuckians expressed an increased likelihood of attending meetings of nonprofit, charitable, civic, or community groups since the terrorist attacks.

In a related question about volunteering, 58 percent of Kentuckians reported that they had volunteered time for civic, community, charitable or nonprofit, or church-related activities in the past 12 months. Of the 58 percent of Kentucky adults who are volunteers, about 11 percent indicated that the number of hours they volunteer had increased since the terrorist attacks, 85 percent said their level of volunteering had stayed the same, and 4 percent said it had decreased.

Financing the War on Terrorism. The war on terrorism will be expensive and will require policymakers and citizens to make difficult choices about spending priorities. According to the *National Strategy for Homeland Security*, "It is critical that all levels of government work cooperatively to shoulder the costs of homeland security." Consequently, even though state and local governments across the country are experiencing budget shortfalls, they will be expected to help pay for the war on terrorism.

FIGURE 1
Likelihood of Kentuckians Attending Civic Meetings Post-September 11

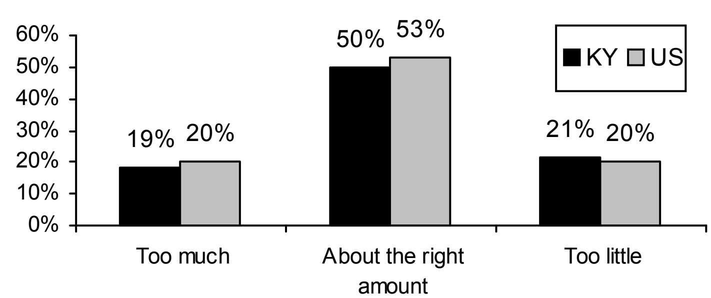


Source: Kentucky Long-Term Policy Research Center and UK Survey Research Center

As shown in Figure 2, when asked about the adequacy of national spending to fight terrorism, 19 percent of Kentuckians said they believe the United States is spending too much money, 50 percent said about the right amount, and 21 percent said we are spending too little money to fight the war on terrorism. Another 10 percent of respondents indicated that they were unsure of the adequacy of spending. These responses are similar to those from a national Gallup Poll conducted in May 2002 which found that 20 percent said "too much," 53 percent said "the right amount," and 20 percent said "too little."

Unlike the federal government, Kentucky state and local governments are prohibited from operating with a budget defi-

FIGURE 2
How Kentuckians Assess Adequacy of U.S. Spending to Fight Terrorism

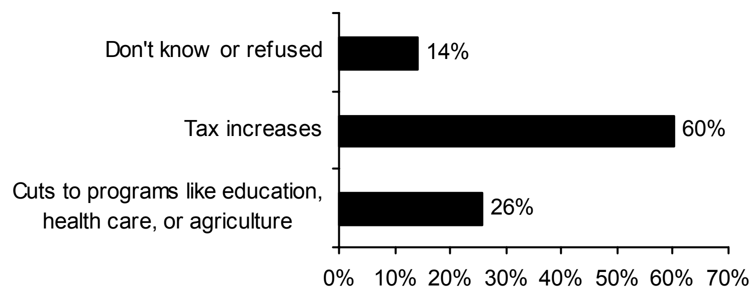


Source: Kentucky Long-Term Policy Research Center, UK Survey Research Center, and the Gallup Organization.

cit. As Figure 3 shows, when asked how they would prefer to finance the war on terrorism, 26 percent of Kentuckians favored cutting spending in other areas while 60 percent preferred a tax increase (14 percent either don't know or refused to respond).

State and Local Preparedness. In addition to helping finance the war on terrorism, state and local agencies such as fire departments, law enforcement, emergency medical services (EMS), hospitals, public health departments, and offices of emergency management will be the first to actually respond to a terrorist attack. Yet a national survey conducted by RAND just before the September 11, 2001, terrorist attacks found that fewer than one third of these state and local organizations had adequately planned for a terrorist incident involving a weapon of mass destruction. When asked how prepared state and local agencies are against a potential terrorist threat, only about 10 percent of Kentucky adults said they believe these agencies are "well prepared," signaling low levels of confidence in our preparations for an attack (see Figure 4).

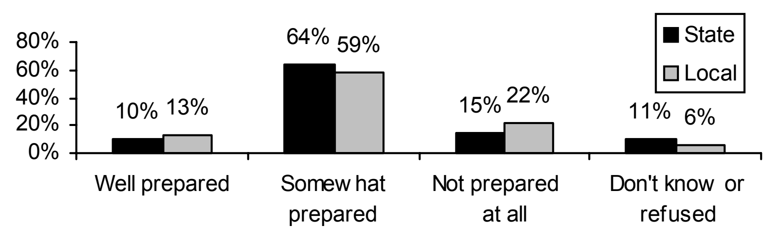
FIGURE 3
How Kentuckians Prefer to Finance State and Local Responses to Terrorism



Source: Kentucky Long-Term Policy Research Center and UK Survey Research Center

Attitudes about Immigration. American public opinion about immigration has become somewhat more negative since September 11. A Gallup poll conducted before the terrorist attacks (June 2001) revealed that 41 percent felt immigration levels should be decreased compared to 42 percent who would like to maintain the current level. However, a June 2002 Gallup poll found that "49 percent of Americans believe immigration levels should be decreased, 36 percent believe they should be kept at their present levels, and 12 percent think they should be increased." Similarly, the Center found that 65 percent of Kentuckians believe there are "too many" immigrants entering the United States, 27 percent say "about the right amount," and around 2 percent say "too few."

FIGURE 4
How Prepared Kentuckians Think State and Local Agencies Are to Deal with Potential Terrorist Threats



Source: Kentucky Long-Term Policy Research Center and UK Survey Research Center

The survey was conducted by the University of Kentucky Survey Research Center for the Kentucky Long-Term Policy Research Center from July 20 until August 26, 2002. Households were selected using random-digit dialings, a procedure giving every residential telephone line in Kentucky an equal probability of being called. The sample includes 882 noninstitutionalized Kentuckians, 18 years of age or older. The margin of error is approximately ± 3 percentage points at the 95 percent confidence level.

Center Conference to Focus on Responses to 9/11. This year, the Kentucky Long-Term Policy Research Center's annual conference, "Living in a Changed World," which is being jointly sponsored by the NewCities Foundation, will explore the long-range implications of September 11, 2001, for Kentucky.

As the detailed agenda on pages 12 and 13 shows, this year's conference is being held in conjunction with the Governor's Conference on Homeland Security. Held on back-to-back days, the conferences will explore the impact of the terrorist attacks on a range of issues relevant to the state, from public health preparedness to the economic fallout from 9/11, as well as the opportunities that have risen from the ashes.

The Center's conference will feature a briefing on state actions by representatives of the National Governors Association and the National Conference on State Legislatures.

Washington, D.C., Mayor Anthony Williams, who serves on a national panel that advises President Bush on homeland security issues, will discuss the timely topic of 9/11's impact on community life.

Dr. Bruce Hoffman, an international expert on terrorism who heads the RAND Corporation's Washington office and is frequently a guest commentator on CNN, NPR, and the Lehrer NewsHour, will also speak.

As in the past two years, KET's Bill Goodman, who hosts the award-winning *Kentucky Tonight*, will lead a panel discussion of the impact of 9/11 and anticipated responses to it. The program will be taped and later shown on KET. "Remembrance and Reflection," a 9-minute, 11-second original performance piece by the Kentucky Historical Society's Museum Theatre Program will dramatize the collected remembrances of Kentuckians from all walks of life about 9/11.

For details on registration, go to page 13 of this issue of FORESIGHT.

HOMELAND SECURITY CONFERENCES

November 20 and 21, 2002, Executive Inn Rivermont, Owensboro, Kentucky

The 9th Annual Conference of the
KENTUCKY
LONG-TERM POLICY RESEARCH CENTER

Jointly sponsored by the
NewCities FOUNDATION

Held in Conjunction with
THE GOVERNOR'S CONFERENCE ON HOMELAND SECURITY

T H E A G E N D A

Wednesday, November 20, 2002

7:30 – 8:30 a.m.
Registration

8:30 – 8:35 a.m.
Welcome
Ray Nelson, Executive Director, Office of Security Coordination

Posting of Color Guards

8:35 – 8:45 a.m.
Opening Remarks
Brigadier General D. Allen Youngman, Adjutant General

The Pledge of Allegiance

8:45 – 9:00 a.m.
Introduction of Governor Patton
Secretary Crit Luallen, Governor's Executive Cabinet
Welcome
Governor Paul E. Patton

9:00 – 9:45 a.m.
Keynote Address
U.S. Efforts to Protect Critical U.S. Infrastructure
John S. Tritak, *Director*
Critical Infrastructure Assurance Office

9:45 – 10:00 a.m.
Break

10:00 – 11:00 a.m.
Moderated Panel: *Kentucky's Homeland Security Initiatives*
Moderator: ***Brigadier General D. Allen Youngman***, The Adjutant General
Panelists:
Ray Nelson, Executive Director, Office of Security Coordination
Lt. Jerry Province, Counter-Terrorism Coordinator, Ky. State Police
William Hacker, M.D., Dept. for Public Health Preparedness Branch
Mark McChesney, Director, Security Services,
Governor's Office for Technology
Malcolm Franklin, Director, Division of Emergency Management
Dr. Ed Hall, Agro-Terrorism Coordinator, Dept. of Agriculture

11:00 – 12:00 p.m.
Moderated Panel:
Federal Initiatives in Kentucky
Moderator: ***Aldona K. Valicenti***, Chief Information Officer
Panelists will include representatives of the U.S. Secret Service, Federal Bureau of Investigation, U.S. Attorneys' Offices, Immigration and Naturalization Service, U.S. Customs, and Transportation Security Agency

12:00 – 1:15 p.m.
Lunch, Network, and View Exhibits

1:15 – 2:15 p.m. and 2:15 – 3:30 p.m.
Breakout Sessions
Physical Security Preparedness, Information Security & Cyber-Terrorism, Public Health Emergency Preparedness, Transportation, Financial and Business Continuity Planning, and Agro-Terrorism

3:30 – 4:00 p.m.
Closing Remarks

Thursday, November 21, 2002

7:45 - 8:45 a.m.
Registration

8:45 - 9:00 a.m.
National Anthem
Sen. Alice Forgy Kerr

Welcome
Dr. Betty Griffin, Chair, Center Board of Directors

9:00-10:00 a.m.
The States Respond
Moderator: ***Ron Carson***, Member of the Board
Kevin Shanley, National Governors Association, and
Molly Stauffer, National Conference of State Legislatures

10:00 - 10:15 a.m.
Break

10:15 - 11:00 a.m.
How has 9/11 affected community life?
Anthony Williams, Mayor of Washington, D.C.
The NewCities Foundation presents Anthony Williams, Mayor of the Nation's Capitol City. As a member of the National League of Cities Working Group on Homeland Security and the 16-member Homeland Security Advisory Council formed by President George W. Bush, Mayor Williams brings a frontline perspective to this important discussion of what the threat of terrorism means to the everyday lives of people in communities large and small.

11:00 - 11:30 a.m.
International Terrorism: Future Trends and Prospects
Dr. Bruce Hoffman, RAND
An internationally recognized expert on terrorism, Dr. Bruce Hoffman advises governments and businesses around the world. A frequent commentator on CNN, NPR, and the Lehrer NewsHour, he is a Vice President of the RAND Corporation and director of its Washington office. ***The New York Times Book Review*** calls his book, ***Inside Terrorism***, a "must read" for those who wish to understand how best to respond to terrorism.

11:30 – Noon
Implications of Terrorism for Kentucky
Moderator: ***Alayne L. White***, Member of the Board
Ray Nelson, Executive Director, Office of Security Coordination
Tom Preston, CEO, Preston Global
Bob Pringle, Patterson School of Diplomacy and International Commerce, University of Kentucky

12:15 - 1:30 p.m.
Lunch
Presentation of the 2002 Hellard Award

"Remembrance and Reflection"
A 9-minute, 11-second performance piece based on the real-life recollections of Kentuckians about 9/11, "Remembrance and Reflection" is produced by the Kentucky Historical Society's Museum Theatre Program.

1:45 - 3:00 p.m.
KET Panel Discussion
The Uncertain Long-Term Implications of 9/11 for Kentucky
Moderator: ***Bill Goodman,*** Host of *"Kentucky Tonight"*
Dr. Bill Brundage, Commissioner for the New Economy
Dr. Nancy Cox, Associate Dean, UK College of Agriculture
Dr. Rice Leach, Commissioner, Department of Public Health
Sylvia Lovely, President, NewCities Foundation
Dr. Michael Price, State Demographer, U of L
Dr. Jim Ramsey, State Budget Director and Acting President, U of L
General Jim Shane, Executive Director, Kentucky Commission on Military Affairs
Sen. Dan Seum, Co-Chair, Interim Joint Committee on Seniors, Veterans, Military Affairs and Public Protection
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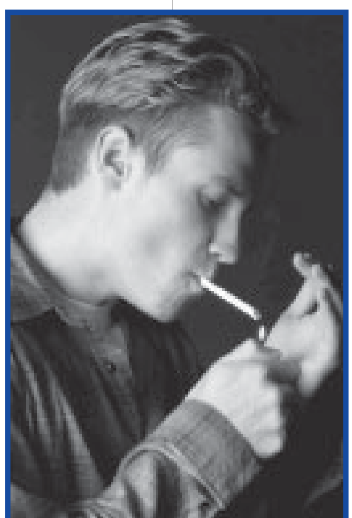
Scanning Kentucky

Emerging trends and issues that may affect the Commonwealth's future

Cigarette Taxes Rx for Budget and Health Woes

A number of states have raised cigarette taxes this year in an effort to fix their recession-wracked budgets, reports *CNSNews.com.* The National Conference of State Legislatures (NCSL), in its preliminary, mid-year report on state budget and tax actions, found that 18 states had raised their cigarette and tobacco taxes, from 7 cents a pack in Tennessee to 70 cents a pack in New Jersey, for a total of $2.9 billion in revenue, the largest share of the total increase in taxes among states.

Attendant benefits of cigarette tax hikes are higher costs that discourage adults and, more importantly, teens from smoking. According to the American Cancer Society, nearly all of first tobacco use occurs before high school graduation. According to the Campaign for Tobacco-Free Kids, a 10 percent tax increase reduces youth smoking by 7 percent and adult smoking by 3 percent to 5 percent. According to the Washington State Economic and Revenue Forecast Council, cigarette sales dropped after voters approved a 60-cent cigarette tax increase. Sales were down 8 percent in January, followed by another 27 percent and 24 percent drop in February and March, respectively.



On the other hand, critics of tobacco tax increases argue that they give rise to another problem. According to Bruce Bartlett, an economist with the National Center for Policy Analysis, a public policy think tank, the high cost of cigarettes encourages cigarette smuggling. Would-be smugglers buy from the hold-out, low-tax tobacco states—Kentucky, North Carolina, and Virginia—and sell their product in the high-cost states.

But revenue worries that are directly related to the cost of health care, specifically Medicaid spending, are motivating many states to tax a product that has long been recognized as the leading cause of preventable deaths in the nation. And smoking is being linked to a growing number of costly health consequences, many of which are ultimately borne by taxpayers.

To counter these costs and revenue shortfalls, Texas Democrats proposed to more than triple the state cigarette tax, from 41 cents to $1.41. In neighboring states Arkansas, Louisiana, Oklahoma, and New Mexico, current cigarette taxes range from 21 to 31.5 cents per pack. The AARP of North Carolina recently called on state legislators to raise cigarette and alcohol taxes to stave off cuts in government health care spending.

In a related scan, the *Gallup News Service* reports that the effectiveness of the many national and state campaigns against youth smoking remains to be seen. Though today's youth clearly understand the risks of smoking, smoking rates among youth have not declined significantly, if at all. In 1990, according to Gallup, 15 percent of 13- to 17-year-olds said they had smoked a cigarette in the last seven days, compared with 12 percent in 2000—not a conclusive drop, given the survey's margin of error. In 1993, according to a nationwide study by the Centers for Disease Control and Prevention (CDC), 31 percent of 6th- through 12th-graders reported having smoked a cigarette in the past month. In 1999, a year after the tobacco settlement, this percentage had *risen* to 35 percent.

In some states, however, teen smoking has fallen sharply. When Maine 6th- to 12th-graders were asked in 1993 if they had smoked in the last 30 days, 33 percent said yes—just a little over the national average. By 1997, that number had shot to 39 percent, but by 2001 it had dropped to 24 percent. That's a 27 percent decrease since 1993 and a 38 percent decrease since 1997.

Why the precipitous decline in teenage smoking in Maine? A likely part of the answer, Gallup concludes, is the Partnership for a Tobacco-Free Maine (PTM). The mission of the PTM, a state tobacco control program, is to curb tobacco use among both adults and youth in Maine. PTM's program includes school and community-based intervention programs, antitobacco broadcasts and print media materials, and tobacco policy enactment and enforcement. This comprehensive approach, these data suggest, gets results that should, in time, reduce the adult population of smokers as fewer teens use a product that leads to an adult addiction.

Implications for Kentucky. To date, Kentucky's lawmakers have demurred on taxing a product made from the cornerstone of the state's agricultural economy. But tobacco farmers and their quotas have declined sharply. Further, in his report to the legislative Subcommittee on Tax Policy Issues, Bill Fox, the University of Tennessee economist hired to advise the subcommittee, observed, "Kentucky's excise tax on tobacco, beer, and alcohol are very low on national standards." In the case of the Commonwealth's cigarette tax, only neighboring Virginia's is lower. Fox cited two reasons why legislators should consider raising the tax: (1) the health benefits of discouraging smoking, and (2) much-needed revenue to offset what has become a growing revenue shortfall.

The health benefits to which Fox refers could be dramatic in a state where smoking rates among both youth and adults, lung cancer death rates, and cardiovascular disease and death rates are among the highest in the nation. The state's poor health status directly affects state resources, from the lost productivity of workers who pay taxes to health care costs linked to smoking, which is more prevalent among the poor and undereducated, those most likely to be or become Medicaid recipients.

States Scramble to Plug Budget Holes

Faced with a large, unexpected drop in income-tax revenue, states across the country are trying desperately to plug gaping holes in their budgets in ways voters can abide in an election year, *The New York Times* recently reported. In response, many states are raising cigarette taxes and various fees, some are cutting spending on the edges or using bookkeeping devices to make the deficits go away, and a few have taken drastic measures to avoid raising sales or income taxes or cutting popular programs like education. Nevertheless, according to NCSL, 17 states had cut aid to elementary and secondary education or were considering doing so mid-year. Another 29 states were looking at possible cuts in higher education.

Missouri was so short of cash this year that it stopped sending out income-tax refunds to more than 400,000 taxpayers who were owed nearly $170 million. Officials promise that the refunds will be mailed when the state's cash flow improves. Wisconsin was considering issuing bonds secured by the 30 years of annual payments from the national settlement with tobacco companies, effectively spending all its share of the tobacco money this year and next.

The National Conference of State Legislatures reported in April that at least 40 states and the District of Columbia were being forced this year to make emergency cuts in their budgets totaling $27 billion. But, to a large extent, Don Boyd, who directs the Fiscal Studies Program at the Rockefeller Institute in Albany, told the *Times*, states are resorting to gimmicks and procrastination, hoping to ride out the budget shortfall. William J. Sheldrake, president of the Indiana Fiscal Policy Institute, a nonpartisan research center, echoed Boyd's conclusion, "The political will is not there to do what is necessary."

Implications for Kentucky. Kentucky, Dr. Fox reported in 2002, and the Kentucky Long-Term Policy Research Center reported in 1996, has long faced a structural deficit. That is, revenues have continued to decline over the course of years and, as predicted by the Center in 1996, ultimately proved inadequate to meet the state's programmatic obligations. The recession/downturn of 2002 brought the long-coming problem to fruition, challenging policymakers to close unanticipated gaps. Over the course of years, Kentucky has approached the sticky subject of tax reform through study. As in most states, legislative action has been confined largely to the elimination or reduction of taxes, rather than to sweeping reform. Today's fiscal climate, however, is fast compelling at least incremental change that will put the state on a correction course.

Study Shows the Uninsured at Increased Risk

More than 18,000 U.S. adults die each year because they are uninsured and cannot get proper health care, according to a recent study by the Institute of Medicine, a nonprofit organization that advises Congress, *USA Today* reports.

One in seven—30 million—working-age Americans have employers who don't provide insurance, yet earn too much money to qualify for government medical care. About 10 million children lack insurance. Overall, 18,314 U.S. citizens die each year, the report concludes, because they lack preventive services, a timely diagnosis, or appropriate care.

The study also compares the uninsured with the insured. Uninsured people with colon or breast cancer, for example, face a 50 percent higher risk of death. Uninsured trauma victims are less likely to be admitted to the hospital, receive the full range of needed services, and are 37 percent more likely to die of their injuries. Further, about 25 percent of adult diabetics who were without insurance for a year or more went without a checkup for two years, increasing their risk of death, blindness, and amputations resulting from poor circulation. Being uninsured also magnifies the risk of death and disability for chronically sick and mentally ill patients, poor people, and minorities, who disproportionately lack access to medical care.

Implications for Kentucky. In a state characterized by disproportionate poverty and poor health, the importance of access to care cannot be overstated. In short, providing access to preventive care, to timely diagnoses and appropriate medical advice and treatment may be the most prudent way to save increasingly scarce Medicaid and Medicare dollars.

Education Gains with a Caveat

The portion of Kentuckians with high school diplomas reached 74 percent in 2000, one of the largest increases in the nation since the 1990 Census, according to *City*, a publication of the Kentucky League of Cities. Although the Commonwealth still ranks near the bottom, the improvement is being hailed as great news by state officials and the media.

As a caveat, however, the Census Bureau counts those who pass the General Education Development (GED) test as equivalent to high school graduates, and little evidence shows the two are equivalent. No one questions the value of the GED as a way for adults to show they have mastered high school subjects and get the certification required by many employers. The problem is that GED holders, on average, fare worse in life than high school graduates, and not much better, if any, than high school dropouts in some respects. One study found that GED recipients were not significantly different from dropouts in terms of unemployment rates and hourly wages. Only a fourth of GED holders who attend community college get degrees, less than half the rate for high school graduates. Only 5 percent of GED holders who attend college finish.

Because GED holders do much worse than high school graduates on the qualifying test and a third drop out of training, the armed forces no longer treat the GED the same as a high school diploma. Even the executive director of the GED Testing Service is quoted as saying that GED recipients should be counted as dropouts in education statistics.

One reason why the GED is not as valuable as a diploma is that most people simply do not spend as much time learning material as they would have in high school. The typical person who passes the GED test does so after 40 hours of classes and studying. Passing each of the GED's subject exams requires getting less than half the answers right. This leads to a second reason why a high school diploma is more valuable. Finishing high school requires more motivation and cooperation with authorities and peers, skills that are useful for the rest of students' lives. Finally, when students perceive an alternative as "equivalent" but easier, some choose the GED. According to an Urban Institute study, the easier a state makes it to get a GED, the higher the dropout rate.

Implications for Kentucky. Struggling to gain an education edge, Kentucky has made progress, but these data suggest it may not endure. While GED certification is a worthy goal, the realization of a culture of lifelong learning is far more important. When most Kentuckians value learning, rather than a ticket to a marginal job, educational and economic progress will follow.

States Spend Big on Elusive Biotech Corridors

U.S. cities and states are committing billions to become biotechnology centers, just as they once sought to lure computer and microchip companies to emulate Silicon Valley. *NYTimes.com* reports that Michigan is spending $1 billion to create a "life science corridor." St. Louis bills itself as the BioBelt, while Hawaii boasts of its biodiversity. To date, 41 states have some program aimed at spurring development of the life sciences, and at least 16 states are spending part of their tobacco settlement on research and commercial development.

Perceived to be an industry of the future with high-paying jobs, biotechnology is the great new development hope now that the Internet bubble has burst. But luring such industries will require wholly new economic development strategies for many states which have focused on attracting large factories. Some experts predict that many, if not most, would-be biotechnology centers will fail. Nine areas, all on the coasts, account for three quarters of the biotechnology companies formed in the last decade and for more than 60 percent of spending by the National Institutes of Health, which finances medical research. Even for places that succeed, biotechnology might not be the economic salvation some envision as the industry employs just 191,000 people nationally and scarcely any blue collar workers.

Implications for Kentucky. Playing to your strengths rather than attempting to reshape your economy is fast becoming the recognized strategy for development. Kentucky's medical and agricultural centers have the potential to compete nationally, but these data caution against seeing this potential as a solution to Kentucky's most pronounced economic problem—rural poverty and persistent undereducation.

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