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LOUISIANA ECONOMY RUNNING IN REVERSE

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Two back-to-back natural disasters named Katrina and Rita wreaked havoc on the State of Louisiana and its residents that all Americans have been able to observe through gripping images and compelling stories of personal loss, disruption, and dislocation. Even without accurate estimates of the overall impact on the Louisiana economy, we can say with assurance that the State has suffered a very serious blow to its economic vitality from which it will take a long time to recover. What is not nearly as well known is that the Louisiana economy has been running in reverse for the five years before it was shocked by Katrina and Rita, making recovery even more difficult and more problematical. This reversal has been developing along three fronts.

First, labor productivity measured in terms of the output of goods and services per worker[1] in Louisiana declined during the five-year period ending in 2004. Seven other states also experienced reverses in this key economic indicator but only Alaska had a record that was worse than Louisiana's. Further, Louisiana was the only deep South state with labor productivity running in reverse [Bauer and Lee, p. 2]. This indicator is especially significant because, as literally all economists agree, productivity improvement has the effect of lowering the cost of production, making private enterprises more competitive, thereby allowing them to roll back prices and still maintain profit margins, all of which ultimately translates into more jobs, higher wages, and better living standards.

Second, Louisiana employment over the 2000-2004 period declined as well. In this instance, however, Louisiana was not alone. Thirty-four other states had similar experiences with Michigan suffering the greatest percent decline in employment [Bauer and Lee, p. 3].

Third, between 2000 and 2004 only three state economies experienced a decline in gross state product (the dollar value of all goods and services produced). The percent decline in Louisiana was greatest of all [Bauer and Lee]. Most of the damage occurred in 2000-2002 [BEA, p. 4].

The loss of jobs puts upward pressure on public agencies to provide additional social services to those who are out of work. The decline in GSP in turn means a loss of tax revenues for state

[1] The customary definition of labor productivity used at the national level -- output per labor hour worked -- cannot be applied here because labor hours worked is not available at the state level.

and local governments in Louisiana at precisely the same time when repairing the damage from Katrina and Rita makes greater demands on public finances. Something has to give: either higher state and local taxes, selective cuts in public spending to provide additional monies for infrastructure repair, or greater federal assistance. Clearly the burden of proof for the third option lies squarely with public officials in Louisiana and its Congressional delegation.

References

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Edward J. O'Boyle is Senior Research Associate with Mayo Research Institute. Since he completed his doctorate in economics from Saint Louis University in 1972, Dr. O'Boyle has been specializing in economic research and analysis increasingly from the perspective of the human person engaged in everyday activities both as a unique individual and as a community member. In January 2004 the Association for Social Economics conferred on Dr. O'Boyle its prestigious Thomas Divine Award for lifetime contributions to social economics and the social economy.
