PROTECTING THE ELEPHANT

State and Local Costs of Homeland Security

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When the Twin Towers and the Pentagon were attacked on September 11, 2001, it soon became clear that the immediate response was coming from local government. Even at that early point in the current crisis, it was obvious that, although the assaults were directed at the nation at large, states and localities would be called upon to bear a significant part of the burden.

It also became clear that the stakes have been raised dramatically for the efficient, effective provision of public services, especially public safety and public health services. We are literally playing with live ammo now and the margins for error have been dramatically reduced.

Another thing that is clear is that dealing with terror is going to cost a lot of money and what I want to do is discuss the nature of those costs and to make some suggestions about how the fiscal burden of homeland security might be reasonably allocated.

In confronting the threat we need to address four elements:

First, is prevention—either preventing an assault altogether or, failing that, greatly limiting its consequences.

Second, is initial response—that is, the immediate activities aimed at limiting the consequences of a successful assault.

Third, is relief—providing social and economic assistance to victims, and finally

Fourth, is restoring, if possible, the functionality of the target that was hit.

The first two—prevention and initial response—are the most critical of the four elements and state and local government will be heavily involved.

Prevention involves two things. First, narrowing the range of susceptible targets. This can be done either through immunization of both people and livestock so that certain biological threats are eliminated or by "hardening" targets, such as power plants, so that damage from any attack that occurs will be inconsequential.

The second approach to prevention is identifying and apprehending or otherwise frustrating those who would commit acts of terror through increased security measures. This ultimately will probably be both the most expensive and most intrusive aspect of prevention.

The irony of prevention is that if it is successful, *nothing will happen*, and it may be difficult for public officials to sustain public interest in and support of efforts to maintain security, particularly if those efforts are viewed as unwarranted restrictions or intrusions. Anyone who wasn't comatose on 9/11 will never forget it, but it would be easy to slip into complacency.

Realistically, it is unlikely that we will be able to prevent all attacks and will have to respond to successful ones as we did on September 11. Response involves the concept of preparedness. The dictionary definition of preparedness is a "state of readiness"—but, ready for what? The range of potential targets and modes of attack are almost limitless. States and localities have emergency response plans already in place to deal with known risks—natural disasters, such as tornadoes, and accidents, such as hazardous material spills, and these plans will be useful in dealing with certain terrorist attacks. But, the new threat requires us to go well beyond natural disasters and accidents to prepare for a whole array of unpredictable purposeful events we have not confronted before.

The sad fact is that preparing for this array of threats will almost certainly entail creating assets and developing programs that will never be used. After all, the odds of any particular venue outside of Manhattan or D. C., or maybe Chicago, coming under terrorist attack are not great, but—can any jurisdiction afford to be unprepared?

This point is beautifully illustrated in a story told by economist Peter Bernstein, who tells of a famous Soviet statistician during World War II, when Moscow was under attack

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by the Nazis. He had publicly maintained that he was not particularly concerned about the bombs, because he was only one of seven million people in the city and the odds of any single individual being hit were very small.

One night, however, he showed up in a bomb shelter. Some of the people in the shelter knew of his lack of concern for his own safety and they asked him why he had changed his mind.

"Look," he said. "There are seven million people in Moscow and one elephant. Last night, they got the elephant."

That, in a nutshell, is the problem. Protecting the elephant, so to speak, could get expensive. How much will it cost, for example, to maintain sufficient excess hospital capacity to handle a major biological attack? or chemical attack? or nuclear attack? Attacks that in any given jurisdiction may well never occur. Yet, the risk involved in not doing so may be unacceptable even though those excess beds may never be needed.

We clearly should be happy if the assets and programs created to respond to terror are never used, but their dead weight costs could be significant and drain resources away from other pre-9/11 priorities, private as well as public. The challenge to governments at all levels will be to accommodate the costs of elevated security with the costs of existing programs.

The costs of elevated security will come in several forms:

First, are opportunity costs—that is, when resources are used for one thing, they cannot be used for other things. On a small scale, it could mean something as innocuous as attending a seminar on bioterrorism instead of one on CPR. On a larger scale, however, it might mean taking resources from education or corrections to put in public health or state police, perhaps distorting public agendas that would, in a less dangerous world, have gone in different directions.

Second, are enhancement costs. This is doing more of what we already do. Beefing up hazmat teams, buying better protective gear or a new fire truck, adding extra patrols. To some extent, this may be useful in helping us deal with conventional emergencies, but again, it is capacity that may turn out to be unneeded.

Third, are expansion costs, that is, doing something we haven't done before. For example, if a governmental unit adds the capacity for radiological decontamination, it acquires a new set of skills and resources. These kinds of costs are limited only by the range of threats posed by terrorism and we know that that range is very great.

Fourth, are risk-related costs. Many of the threats posed by the terrorists are really not much different from the threats we have from accidents—hazardous material spills, explosions, train derailments, and so on. The critical difference is that accidents are, for the most part, known risks. This means that they are candidates for insurance. We may not know when the chlorine leak will occur, but we know enough history to calculate its likelihood.

Terrorism, on the other hand, isn't subject to actuarial calculations. The terrorists rely on unpredictability to achieve their goals. The by-product of this is that public and private entities may have to self-insure against economic losses occasioned by terrorism, which, of course, singles out high profile, high value targets.

Finally, the threat is not just in increased expenditures; there will likely be revenue costs as well, which may become manifest in two ways and we saw both in connection with 9/11. First, terrorism-induced economic slowdowns can cause tax revenues to fail to meet expectations. Second, property tax base can be destroyed. The twin towers contained 9.6 million square feet of class A office space and a total of 12 million square feet was eliminated. By any standard, that is a lot of taxable value to lose.

Regardless of the amount and nature of the costs of preventing and responding to terrorism, the question of allocating those costs among the layers of government still remains and is being debated. The news media have been replete with stories of states and localities complaining of budget crises and attempting to shift any cost remotely related to terrorism to the federal government, even though that cost might have been unquestioningly borne by state and local government pre-9/11.

There are at least four problems with this: First, as noted earlier, many of the threats posed by terrorists exist to some extent in the form of potential natural disasters, accidents, or garden variety domestic crime for which states and localities have already formulated plans and acquired the assets necessary to carry out those plans. There is some suspicion that state and local units are seizing upon terrorism as a justification for federal underwriting of these programs, which would have been funded locally anyway.

Second, a large-scale federal terrorism

pork barrel will almost certainly result in feeding the horses in order to feed the sparrows. Money will be spread around to jurisdictions that are at little risk of terrorist attack or for programs of prevention and response that would more legitimately be funded locally. The result could be hugely wasteful. Vermont, for example, does not warrant disproportionately more federal spending on homeland security than California or Michigan. And it is hard to justify federal tax dollars going toward securing the Reno, Nevada, water supply.

Third, it is almost axiomatic in public finance that public officials are more careful with the funds that they have raised from their own taxpayers than they are with funds from other layers of government.

Finally, while state and local governments wait for the federal government to fund their programs, the clock continues to tick down to the next attack. It is almost 2 years since 9/11 and, should there be another successful attack, citizens and history will not deal tolerantly with excuses about federal funding inadequacies, agencies that don't coordinate their activities, computers that don't talk to each other, or failure to connect the dots. A reasonable question would be, "If the feds didn't come up with the funding that you thought you needed, why didn't you?"

Having said this, the federal government still has a large and legitimate role in financing programs aimed at preventing and responding to terrorism. But that is not the same as saying that the U.S. Treasury should simply open up its checkbook and start underwriting the public safety and public health budgets of every state and local unit in the country in the name of homeland security. Eight criteria for federal funding of prevention and response activities might reasonably be suggested.

1. *The function is inherently national.* The armed forces and foreign intelligence are obvious examples.

2. *The function is so specialized or infrequently used that duplication in each state would be inefficient or impracticable.* Some functions, such as the Centers for Disease Control, are carried out at the federal level because the skills and resources needed are so scarce that they could not be acquired by the states at anything approaching reasonable costs and, if they could, wasteful duplication would result.

3. *The function requires uniformity and/or close interstate coordination.* Problems with communications and incompatible information technology are frequently-cited examples of what happens when the states are left to their own devices in these areas. In addition, it may not make sense for certain specialized equipment or technology to be located in every state, while at the same time it should be available to every state.

4. *The target is involved in interstate or international commerce.* The federal government has primary responsibility for interstate and international commerce. It follows that security of major airports and seaports is at least partially a federal responsibility.

5. *The target is a federal asset.* Numerous federal facilities exist in and about the District of Columbia, but the federal government owns many other potential targets all across the nation and protecting them should be a federal responsibility.

6. *The target has national economic significance.* If the cattle industry, for example, were devastated by terrorist-induced disease, it is unlikely that any state or private institution could reasonably absorb the costs involved in restoring the industry to health.

7. *The method of delivery involves a federal program.* The obvious example here is the U.S. Postal Service.

8. *The loss is disproportionate.* A case could be made that, in the destruction of the World Trade Center, New York City lost more office space and tax base than even exist in all but a very few major cities in the U. S. and that destruction of this magnitude could arguably be considered a national loss that should elicit a federal financial response.

As limiting as these criteria are, they would still admit of a significant amount of federal funding. But states and localities should shoulder the responsibility for protecting or responding to assaults on local power plants (nuclear or not), water supplies, schools, bridges, tunnels, and other state and local public assets, as well as the people and private property located within their jurisdictions. This may run counter to the desire of local officials to hold down local taxes and shift the burden to the federal government, but states and localities do bear a large share of the burden and any serious long-term homeland security policy formulation will require that they participate in financing that burden.