

MERCATUS POLICY SERIES

P O L I C Y C O M M E N T N O . 9

DISASTROUS UNCERTAINTY:
HOW GOVERNMENT DISASTER POLICY
UNDERMINES COMMUNITY REBOUND

EMILY CHAMLEE-WRIGHT
*Affiliated Senior Scholar, Mercatus Center
Professor of Economics, Beloit College*

DANIEL M. ROTHSCHILD
Associate Director, Global Prosperity Initiative

JANUARY 2007

MERCATUS CENTER
GEORGE MASON UNIVERSITY

ABOUT EMILY CHAMLEE-WRIGHT, CO-AUTHOR

A professor of economics at Beloit College, EMILY CHAMLEE-WRIGHT earned a PhD in economics from George Mason University. Her research investigates the confluence of cultural and economic processes. Much of her current research centers on Gulf Coast recovery efforts in the wake of Hurricane Katrina. She is currently working on her third book, *The Learning Society*, which examines how communities deploy social capital resources in the face of poverty and devastation. Professor Chamlee-Wright is a former W.K. Kellogg National Leadership Fellow and a recipient of the Underkoffler Award for Excellence in Teaching from Beloit College.

ABOUT DANIEL M. ROTHSCHILD, CO-AUTHOR

DANIEL M. ROTHSCHILD is the associate director of the Global Prosperity Initiative at the Mercatus Center. Daniel holds a master in public policy degree from the Gerald R. Ford School of Public Policy at the University of Michigan, a master of arts degree in modern British history from the University of Manchester, and a bachelors degree from Grinnell College. He is involved with international development policy at Mercatus.

ABOUT FREDERIC SAUTET, EDITOR

FREDERIC SAUTET is a senior research fellow at the Mercatus Center at George Mason University and a member of the graduate faculty at George Mason University. Prior to joining Mercatus, Frederic was a senior economist at the New Zealand Commerce Commission and a senior analyst at the New Zealand Treasury where he focused on economic transformation, entrepreneurship, utility development, and tax policy. Frederic holds a doctorate in economics from the Université de Paris Dauphine and did the course work for his doctorate at the Institut des Etudes Politiques in Paris. He also studied at New York University as a post-doc. Frederic's current work focuses on entrepreneurship, institutions, and social change.

For more information about the Mercatus Center's Global Prosperity Initiative, visit us online, www.mercatus.org/globalprosperity, or contact Claire Morgan, director of the Social Change Project, at (703) 993-4955 or cmorgan4@gmu.edu.

MERCATUS CENTER
GEORGE MASON UNIVERSITY

DISASTROUS UNCERTAINTY:

HOW GOVERNMENT DISASTER POLICY UNDERMINES COMMUNITY REBOUND

EMILY CHAMLEE-WRIGHT AND DANIEL M. ROTHSCHILD

EXECUTIVE SUMMARY

In the aftermath of large-scale disasters, policy makers frequently respond by developing and directing top-down recovery plans and launching a variety of expensive and complicated programs to rebuild cities and compensate victims. This was certainly the case after Hurricane Katrina.

However, these plans tend to ignore the innate abilities of individuals, communities, and businesses to use a variety of resources and sources of information to guide their decisions about whether and how to rebuild. These decisions are not made in isolation, but rather depend substantially on the signals sent by similarly situated people.

Recovery efforts guided by the signals that emerge from action on the ground produce faster, more robust, and more sustainable redevelopment than efforts stemming from a politically-produced and centrally-executed recovery plan. Moreover, large-scale redevelopment programs can overwhelm and obfuscate the signals created locally, stalling and distorting the organic recovery that is crucial to long-term sustainable development.

Public policy can foster an environment which encourages sustainable, organic recovery by:

1. Providing quick, clear, and credible commitments about what goods and services governments will provide and when,
2. Creating in advance alternative regulatory regimes specific for post-disaster environments, and
3. Avoiding policies that distort local economies and hamper civil society rebuilding.

Because policy mistakes can have serious retarding effects on post-disaster rebuilding efforts, policy makers must understand the systemic reasons why government help so often goes awry, why private citizens with a stake in the outcome are best situated to lead their own recovery, and how to craft policy responses in a way that keeps “signal noise” to a minimum.

DISASTROUS UNCERTAINTY:

HOW GOVERNMENT DISASTER POLICY UNDERMINES COMMUNITY REBOUND

INTRODUCTION

On August 29, 2005, the nation watched as Hurricane Katrina pummeled the Gulf Coast, inflicting over \$100 billion of property damage across broad swaths of Louisiana, Mississippi, Texas, and Alabama¹—ultimately claiming over 1,600 lives.² The fury of nature seemed to cause the institutions on which our society is based—those of government, commerce, and civil society—to crumble. First responders appeared overwhelmed as accounts of widespread looting, vandalism, theft, assault, and murder headlined newspapers and as the images of our fellow citizens literally swimming for their lives appeared on television and computer screens. The slow and seemingly inept responses of government at all levels both in preparation for and recovery from the storm infuriated Americans.

On September 15, President Bush addressed the nation from Jackson Square in the New Orleans French Quarter, pledging the federal government to sponsor and manage a rebuilding program of historic proportions:

[T]he federal government will undertake a close partnership with the states of Louisiana and Mississippi, the city of New Orleans and other Gulf Coast cities so they can rebuild in a sensible, well planned way. Federal funds will cover the great majority of the costs of repairing public infrastructure in the disaster zone, from roads and bridges to schools and water systems.

Our goal is to get the work done quickly. And taxpayers expect this work to be done honestly and wisely. . . .³

Sixteen months after Katrina made landfall, communities along the Gulf Coast are in various states of repair. Some areas are almost rebuilt, while in others little progress has been made. Some communities have proven remarkably resilient, while others have been unable to “get the ball rolling” on recovery. Given the commitment of \$110 billion by the federal government⁴ (including \$7.5 billion through the Louisiana Road Home

¹ John McMillan, “Nation Just Doesn’t Understand Scale of Katrina, Official Says,” *The Baton Rouge Advocate*, November 10, 2006.

² Marcus Frankin, “Columbia Geophysicist Wants ‘Full’ Katrina Death Toll,” Associated Press, October 28, 2006.

³ “President Discusses Hurricane Relief in Address to Nation,” White House Press Release, September 15, 2005, <http://www.whitehouse.gov/news/releases/2005/09/20050915-8.html>.

⁴ “Fact Sheet: A New Mississippi: Rebuilding in the Wake of Hurricane Katrina,” White House Press Release, August 28, 2006, <http://www.whitehouse.gov/news/releases/2006/08/20060828-2.html>.

Program),⁵ payments of over \$23 billion⁶ from the subsidized National Flood Insurance Program, and the subsidies offered under the Gulf Opportunity Zone and other tax credits, Gulf Coast residents affected by the storm, and Americans more broadly, are right to ask why the pace of recovery has been so slow.

Policy makers too remain concerned about the slow pace of recovery, and Americans of all political stripes believe that governments at all levels are not doing enough to help. A year after the storm, only 32 percent of Americans believed that federal agencies are doing “all that could be expected” of them.⁷ Two-thirds of Americans believed that the federal government’s response has been “not so good” or “poor.”⁸

However, the problem may not be that governments are not doing enough. In fact, the rebuilding effort is likely to be more rapid and sustainable if civil society, rather than government, takes the lead. But in order for civil society to fulfill its potential, governments must assume a relatively minor role in the redevelopment process so as not

to distort the signals generated by the discovery unfolding within civil society.

In the wake of Katrina, residents and business owners across the Gulf Coast are looking for signals—cues as to where they should devote their time and resources—regarding whether and when their communities and customer bases are going to return and in what form. A community is, after all, not just a political district or a tract of homes: it is a social system that connects individuals and their families to one another through formal and informal neighborhood groups and the services and social spaces created by schools, businesses, religious groups, and non-profit organizations. The futures of the victims of Katrina are tied to the decisions of others—their neighbors, their customers, their employees, and the commercial and non-commercial organizations serving their communities. In such a context, the signals coming out of civil and commercial society—signals about who is coming back and when and what services will be provided—play a critical role in the recovery process.⁹

⁵ Leslie Eaton, “Slow Home Grants Stall Progress in New Orleans,” *New York Times*, November 11, 2006.

⁶ Donald B. Marron (Acting Director, Congressional Budget Office), Letter to Senator Judd Gregg, May 31, 2006, <http://www.cbo.gov/ftpdocs/72xx/doc7233/05-31-NFIPLetterGregg.pdf>.

⁷ CBS News/New York Times poll conducted August 17–21, 2006. Fifty-nine percent of respondents believed that the federal government should be doing more, and nine percent were unsure. <http://www.pollingreport.com/disasters.htm>.

⁸ ABC News poll conducted August 10–20, 2006. Four percent rate the response as “excellent,” and twenty-five percent rate it as “good.” <http://www.pollingreport.com/disasters.htm>.

⁹ For more detail on this, see Emily Chamlee-Wright, “After the Storm: Social Capital Regrouping in the Wake of Hurricane Katrina” (working paper, Mercatus Center at George Mason University, Arlington, VA, 2006).

“Well, there’s a lot of uncertainties, you know? . . . [W]e don’t know whether [the] levee system’s going to hold, number 1. Number 2, a lot of people are still finding insurance issues that just haven’t been corrected. And number 3—even people who’ve got the insurance and you want to come back home, you don’t know how many people ever come back in the neighborhood. Who wants to live in the neighborhood with nobody there? So, there’s just so many uncertainties right now, you know? Who knows?”

—Law Enforcement Officer, New Orleans.

And yet, in the post-Katrina environment, many of the signals upon which people depend to make informed and responsible decisions have become difficult to read or have become so distorted that seemingly clear signals are sending the wrong message. We call this distortion “signal noise”: the persistent distortion of signals that does not self-correct, making the underlying signal more difficult for people on the ground to read and interpret.¹⁰

To take but one example, New Orleans is currently in its second (some say third) discrete rebuilding planning process in less than a year. As each new planning process and the commensurate rebuilding plan appear, residents change their decisions about how and whether to rebuild.

When a previously-announced plan is scrapped in favor of a new plan with different rules for rebuilding, time is lost, progress made under the now-obsolete plan is rendered useless, and residents are left wondering whether the next plan will be “the one”—or just another aberration. These multiple and varied signals that the city has sent to its residents have left people making decisions about rebuilding without any consistent knowledge of what and when policy makers will allow them to rebuild. This in turn slows the rebuilding process and delays the recovery of key commercial and civil society organizations and institutions. When governments fail to establish the rules of the game for rebuilding, or worse yet change the rules in mid-course, it becomes diffi-

¹⁰ The concept of signal noise comes from the natural sciences. “Signal to noise ratio” in radio communications refers to the amount by which static and interference dilutes the signal of, for instance, a commercial radio station. As the noise surrounding a signal becomes stronger, radio listeners find it harder to follow the music. Other social scientists have used the concept of signal noise and discussed the effects of signal noise, most notably Robert E. Lucas, “Expectations and the Neutrality of Money,” *Journal of Economic Theory* 4(2), 1972, pp. 103-24.

cult for victims to make vital decisions and get on with their lives.

To be clear, signal noise is not merely the confusion created by a major disaster; such confusion tends to subside relatively quickly after families reunite, supplies come in, and response shifts from emergency response to rebuilding. Nor is signal noise “natural.” Signal noise is not an inevitable result of disaster. Instead, it is often the unintended consequence of poorly conceived policy interventions. Whereas the signals generated by civil and commercial interactions, which possess built-in incentives that amplify the right signals and minimize the wrong ones, tend to sort out and reduce the confusion faced by individuals, government policy does not possess self-correcting properties. Indeed, signal noise generated through public policy tends to be stubbornly persistent.

In particular, federal, state, and local governments introduce signal noise through disaster relief efforts, management of flood protection and insurance systems, and redevelopment planning initiatives. We find that the distortions created by disaster policy often drown out the more nuanced, precise, and self-correcting signals generated by residents and businesspeople with a personal stake in how, when, and where rebuilding happens. Though it is possible for government to

foster an environment in which clear signals might emerge, current practices often undermine the efforts of private citizens trying to affect a swift and sustainable recovery.

The structure of this policy comment is as follows. In Section A, we describe specific strategies by which some Gulf Coast communities are successfully rebuilding. In Section B, we examine how civil and commercial society are generating signals necessary for a robust recovery. Section C discusses some of the ways in which government programs and policies undermine these community-based strategies by generating signal noise. Additionally, we examine the systemic reasons that make government-led recovery prone to such distortion. In the final two sections, we conclude by explaining the policy ramifications of this research and offering suggestions for how policy makers can reduce signal noise in dealing with future disasters.

Because public policy mistakes can have serious and broad retarding effects on rebuilding efforts after a disaster, it is important that policy makers understand the systemic reasons why government help so often goes awry, why private citizens are usually the best leaders of their own recovery, and the importance of crafting public policy in such a way that signal noise is kept to a minimum.¹¹

¹¹ The observations made in this policy comment are based on fieldwork conducted in the Gulf Coast region in February, March, April, June, and October 2006, including more than 100 in-depth interviews with people engaged in the rebuilding process.

A. COMMUNITY REBUILDING STRATEGIES

The problem of signal noise looms so large in rebuilding after Hurricane Katrina precisely because of the importance of the blocked signals. Were the signals sent by commercial and civil society unimportant to the rebuilding effort, public policy and the accompanying signal noise would have little negative effect on the recovery. However, communities in the Gulf Coast are relying upon the signals generated by their neighbors, friends, non-profit organizations, and commercial partners to make decisions about rebuilding. The reopening of schools and grocery stores, the resumption of church services, and calls for neighborhood association meetings are all seen by returning residents as signs of community rebirth. In the absence of policy-generated noise, these signals would be more easily read and thus speed the recovery process.

Communities that have demonstrated success in their redevelopment efforts have obviously had to deploy human, financial, and physical capital. Complementing these resources is another essential form of capital—social capital. Social capital resources are those resources embedded within networks of friends, neighbors, faith communities, clubs, krewes, businesses, and so on.

Redeveloping and deploying the complex mix of resources that make up social capital has proven vital to successful recovery. In particular, communities rebuilding after Hurricane Katrina are employing a variety of different social capital-based strategies, each of which serves an important signaling function.¹²

The most prevalent of these strategies is *mutual assistance*, by which storm survivors support one another by exchanging labor, expertise, shelter, child care services, and tools and equipment. Mutual assistance serves as a source of material support, but more importantly, it sends signals that members of a community are committed to recovery and helps restore the fabric of communities torn asunder by disaster. Such assistance signals residents who are considering returning to the area that other people will share the burdens and the risks of returning with them. It signals the community's return. Governments could ostensibly provide some of the material support that mutual assistance provides, but such aid would drown out the signals that residents desperately need and that help reestablish community in the true, rich sense of the word.

A second strategy is *charitable action*. Unlike mutual assistance, which relies on reciprocity, charitable action consists of one-way offers of

¹² These strategies are discussed and explored in much greater depth in Emily Chamlee-Wright, "After the Storm: Social Capital Regrouping in the Wake of Hurricane Katrina" (working paper, Mercatus Center at George Mason University, Arlington, VA, 2006).

SOCIAL CAPITAL AT WORK: TWO STORIES

Frank¹³ owns a hardware store that took eight feet of water during Hurricane Katrina although his house suffered only minimal damage. His manager was not so fortunate. The two of them have employed a mutual support strategy, using the social capital that comes from their working relationship, to get their store back online.

Frank: My house survived pretty decently. . . . Meanwhile, we've been housing five other people that are living with us now, 'coz their houses didn't. But you know, my manager [and] another couple have been living with us with two small kids So they've been living with us basically for the last eight months, which is unique at first. But we'd do it all over again if we had to.

Interviewer: Were you able to pay [your manager during this time]?

Frank: No . . . we haven't paid him a cent other than stuff that jobs we maybe did on the side to help pay cash so to speak, get money so to speak to survive.

For eight months Frank provided his manager a familiar (albeit a bit crowded), clean, proximate, and safe home, a particularly precious resource in the post-Katrina environment. On the other side of the coin, the opportunity for Frank to rely upon an experienced right-hand man, despite the inability to pay his usual salary, was surely just as valuable to Frank in his efforts to re-open his store.

Katrina devastated Marie's Mississippi home. But she and her neighbors banded together to work on one another's homes netting vital material benefits—and they rewove the social fabric in their communities by relaxing together as well.

Marie: And we worked together like, you know, at night. . . . I had a swimming pool above ground. My pool did not go down, and I felt like God left it there for a reason, because the whole neighborhood used it as a Jacuzzi. We would take the pump and . . . it turned and cleaned the pool. So here there's no gas, and we're running the pool. We were like, "Don't tell anybody we're using the gas for that pool." But I mean, you'd look out and then you'd say, "Oh hey," you know? [Marie smiles.] And to this day, there's still a bar of soap sitting on the side of our pool. And I think I'm going to leave it there. I really do.

¹³ This is a pseudonym to protect the interviewee described here. All quotations are verbatim.

direct assistance from individuals and private philanthropies largely outside the affected areas. Because charitable action is decentralized and hence nimble, nuanced, and able to respond effectively to individual and small group needs, it helps provide signals of how interested third parties wish to “invest” their financial, labor, or physical resources in helping others rebuild.

A third strategy is *commercial cooperation*, whereby commercial activity positively impacts a community’s ability to rebound. Like mutual assistance, commercial cooperation provides material support and signals that businesses—and hence goods, services, and jobs—are returning to a community. Commercial cooperation is vital in an area that has suffered widespread physical devastation and thus needs cleaning and rebuilding materials for physical recovery. Like mutual assistance, a spirit of enlightened self-interest drives commercial cooperation and provides a crucial element of recovery. As the manager of a large national home improvement supply store stated, “This is not really about sales. . . . We need our community, you know.” Commercial relationships that are taken for granted in a normal setting, such as access to grocery stores, banks, barbers, and hospitals, send crucial signals about sustainability when they return to communities after disaster. Government provision of the goods and services they provide delays the reemergence of the signals they send, which in turn delays recovery.

Finally, a strategy we call “*build it and they will come*” occurs when private citizens, business own-

ers, and community leaders create or redevelop a key community resource that might serve as the tipping point for residents and other businesses and organizations to return. For instance, in New Orleans East, the resumption of church services at the Mary Queen of Vietnam Catholic Church soon after the storm stimulated a rapid return of the Vietnamese community. In St. Bernard Parish, the opening of a unified school drew thousands of students and their families back to the community. By casting an entrepreneurial gaze at the resources available for redevelopment, community leaders and ordinary citizens seek to solve one crucial piece of the redevelopment puzzle, making it possible for many more to return and sending a strong signal that the community is on the rebound. Noise emanating from government policies can muffle these signals—or squelch them altogether—by failing to provide and enforce the rules of the game for rebuilding or creating rules that forbid or delay such re-openings either through regulation, economic distortion, or disrespect for private property rights and contracts. Similarly, rigid adherence to regulatory structures ill-suited to the post-disaster context creates noise that affects these signals.

Through these and other patterns by which social capital is deployed, individuals in post-disaster contexts are able to use signals generated within markets and civil society to make intelligent decisions about how, where, and when to rebuild their communities and their lives. It is for this reason that policy makers must craft both pre- and post-disaster policy in a manner that allows

for these signals to emerge and not unintentionally create signal noise that drowns them out or distorts them to the point that they can no longer effectively guide people in their efforts to make informed and responsible decisions. The robustness of signals emanating from markets and civil society depends crucially upon the social rules we tend to take for granted—rules of private property, the rule of law, contract enforcement, and basic rights of self-determination. As crucial as these rules are for day-to-day interaction, they are all the more important to ensure in the wake of disaster.

Providing this assurance is a critical way government at all levels can reduce signal noise. It is not enough to quickly and credibly institute bad policies that undermine community rebuilding. Beyond this, policy makers must consider the ways in which their efforts to help disaster victims often unintentionally distort the signals people need to effect a successful recovery effort.

In the next section, we discuss some of the ways in which, and the reasons why, government-led recovery efforts tend to drown out the otherwise clear signals that individuals, families, and communities generate through their commercial and civil interactions.

B. HOW SIGNAL NOISE AFFECTS DISASTER RECOVERY

Clearly there are things that governments can do to foster an environment in which meaningful signals emerge. By enforcing property rights and contracts or restraining inflation, for example, governments help to clarify and enforce “the rules of the game” for our daily interactions with one another. When good rules such as these are clear and well-enforced, the signals that emerge in markets and other social interactions tend to be robust and allow the interactions between members of society to be more fruitful and peaceful. Citizens of liberal democracies tend to take these “rules of the game” for granted, but they are vital to our daily interactions and overall well-being.

While governments can help establish the context in which this signaling and discovery takes place, governments themselves are generally not good at learning what people want, how to address these wants, and the terms by which people work together to coordinate their often competing interests. For instance, the government is not good at discovering what restaurants people like to frequent, what types of jobs employers will require next year, or if homeowners prefer

Formica or granite countertops in their kitchens. Because of this, people operating within liberal democracies make these decisions in the marketplace and use prices as a means for discovering the best use of resources. This “discovery process”—determining what goods and services are needed and how best to provide them—spreads good ideas among individuals and their communities and is vital to overall social coordination.¹⁴

The rebuilding process after a natural disaster is a discovery process writ large. People whose homes have been damaged or destroyed need to find supplies and contractors to help them with repairs. Businesses in turn are searching for employees and materials. Non-profit and charitable groups seek opportunities to coordinate the assets of donors and volunteers with the needs of disaster victims. On a deeper level, families and businesses are trying to determine how and whether they should rebuild—or whether they should start anew elsewhere. Similar discovery occurs every day in every community in the country, but after a disaster, the process becomes more prominent as questions elevate from the quotidian (“Where should I get my car’s oil changed?”) to the more profound (“How do I rebuild my home?”). It is, however, fundamentally the same process that coordinates our daily lives.

Because the political process is not a good instrument for gathering this “on the ground” knowledge, its outcomes can negatively impact decision-making by people recovering from disaster. Public policy changes affect the signals that victims and people on the ground read and interpret, which in turn affects their ability to make good decisions.

Two key areas where public policies can create signal noise after a disaster are: (a) through the planning and regulatory processes and (b) through provision of goods and services that could otherwise be provided through the market. We now consider each of these in turn, examining specifically their implications on the rebuilding process in New Orleans and along the Gulf Coast.

B.1 NOISE IN THE RULES OF THE GAME: PLANNING AND REGULATION

Planning

After a natural disaster, residents need assurance that policy makers will respect their property rights and rights of self-determination and quickly explain what changes to the institutional “rules of the game,” if any, residents will encounter as they put their lives, homes, and businesses back together. To the extent that a natural disaster presents an opportunity to get rid of the mistakes of the past and try new ideas, that opportunity

¹⁴ For more on the role of markets and entrepreneurship in the discovery process, see Israel M. Kirzner and Frederic Sautet, *The Nature and Role of Entrepreneurship in Markets: Implications for Policy*, Mercatus Policy Series, Policy Primer No. 4 (Arlington, VA: Mercatus Center at George Mason University, 2006).

must be based on the decisions of individuals in the affected communities.

Because of government's inability to discover information effectively, especially after a crisis, broad government re-planning after a disaster can drown out the signals generated through the real discoverers of knowledge—residents, their neighbors, civic organizations, and businesses operating within the market context. Attempts by governments to rebuild (or even re-engineer) communities after a disaster slow the recovery process and frustrate the people they are trying to assist by making it more difficult for residents and business owners to make informed and responsible decisions.

The political process is by its nature slow-moving. It takes months or years for relief funds to trickle down into the hands of those in need, and the policy making and execution process is arduous and complicated, as exemplified by FEMA's failure to quickly revise flood insurance rate maps (FIRMs), which has left people unsure whether they should rebuild homes as before, elevate them three feet, elevate them nine feet, or abandon rebuilding altogether. Information about flood risk and the implications these risks have for public policy and insurability are crucial to rebuilding efforts. Without clear information on flood risk, residents and business owners cannot assess the costs of rebuilding, and recovery will slow or halt altogether.

“FEMA, they still haven't come up with the maps that show certain areas. So you are going to place money on false hope. New Orleans is going to wind up flooding again.”

*—Volunteer leader,
Ninth Ward, New Orleans.*

New Orleans provides an excellent example of how government planning can stall rebuilding and the discovery process it entails. In October 2005, Mayor Nagin created the Bring New Orleans Back Commission (BNOB) to create a plan for rebuilding the city. Though BNOB's Urban Planning Committee assured New Orleans residents that they would have representatives on the Committee, the driving paradigm was clear: redevelopment of the city could not rest in the hands of private citizens. Instead, the Crescent City Recovery Corporation (CCRC) would orchestrate it through a comprehensive plan. CCRC would have “the powers to receive and expend redevelopment funds, to implement the redevelopment plan, to buy and sell property including use, as a last resort, of the power of eminent domain.”¹⁵

¹⁵ See <http://www.bringneworleansback.org> for more details about this planning process.

The wisdom of putting government “in charge” of the redevelopment effort and the assumption that it would take billions of federal dollars to do it were never questioned. The task before the BNOB was simply to figure out what and how to plan and what powers state and local policy makers must grant to the CCRC.¹⁶

The recommendations that came out of the process included reducing the city’s “footprint” and transforming some neighborhoods into green space and industrial centers.¹⁷ In its \$18 billion plan, the Commission carved the city into thirteen planning districts. A committee would create a redevelopment plan for each district and determine the future viability of neighborhoods within the district. It was not clear that the planners even knew how to define a neighborhood, much less plan one, and residents frequently found the committee’s definition of their neighborhood at odds with their own.

In order to be considered a “viable neighborhood,” the planning committee had to demonstrate that fifty percent of the residents in a neighborhood had returned or were committed to returning. Neighborhoods that failed to meet the threshold of viability were candidates for forced

buyouts. During the four month planning period, the Commission recommended a moratorium on rebuilding permits in neighborhoods that had at least two feet of flooding—approximately 80 percent of the city. Though the public outcry led Nagin to reject the building moratorium, the underlying paradigm of centralized redevelopment planning was not and still has not been rejected. In fact, in May 2006, Nagin announced that the basic blueprint that the BNOB devised would set the agenda for his second term.

Despite the best intentions of the BNOB Commission and elected officials, the shifting rules of the game created signal noise that proved deafening to the average New Orleanian. In New Orleans East, for instance, some communities were well into rebuilding when Nagin suggested that the city might not provide any municipal services, only to rescind that suggestion later. Nagin’s remarks were extremely serious to the homeowner rebuilding her greatest investment or to the business owner deciding whether to remain in New Orleans or relocate. The only way to truly discover whether a neighborhood is a viable candidate for rebound is to make the rules of the game as clear as possible and let people try to rebuild. If they are unwilling to do so, at least

¹⁶ In order to ensure that the CCRC had the authority it required to carry out the redevelopment planning effort, the BNOB recommended “tak[ing] away from the City Council the ability to reverse decisions by the city Planning Commission and let appeals be handled by the court. Both moves would need voters to amend the city charter.” Staff Reports, *New Orleans Times-Picayune*, January 12, 2006.

¹⁷ Martha Carr, “Rebuilding Should Begin on High Ground, Group Says,” *New Orleans Times-Picayune*, November 19, 2005.

with flood maps in hand, property rights assured, and ideally a credible commitment to whatever level of flood protection will (or will not) be provided, property owners have the option of selling to those who are willing to try. Absent those stable rules of the game, any viability study will fail—and it will waste precious time in the process.

After the failure of the BNOB Committee, the Greater New Orleans Foundation (GNOF) launched a rebuilding planning process that makes greater use of local knowledge and empowers communities more than the previous planning process did. It remains to be seen whether this process will work. But the costs of the first failed process have been massive: nine wasted months, millions of wasted dollars, and unquantifiable but significant distortions to the local market as citizens navigate not just the damages of the storm, but also the vagaries of the political process.

Questions about the strength of the levees being rebuilt—and the failure of the government to give

a clear, consistent answer on this question—have further stymied rebuilding. Elected officials and bureaucrats have made contradictory and frequently uninformed statements about how, where, and when the U.S. Army Corps of Engineers would rebuild the levees, leaving residents in limbo when making decisions about rebuilding. The unknown future of the Mississippi River Gulf Outlet (MRGO or “Mister Go”) similarly exacerbates this uncertainty. Without knowledge about whether their homes and businesses will receive Category 2 or Category 5 levee protection, residents have been unable to make informed choices. The government’s previous failure to build levees that performed to their advertised standards has exacerbated this uncertainty. In short, government action has created and is continuing to create a noisy decision-making environment, leaving many businesspeople and residents in a state of indecision and slowing the pace of post-disaster recovery.

The signal noise that the rebuilding planning efforts generate is a key reason that rebuilding in

“I want to know that the levees are strong enough to withstand the next category five or three or four—whatever comes through—and I want to feel confident. I’m annoyed, but you’re hearing all these different stories. The Corps, they say one thing, and then other people say, ‘Oh, that’s not true’—you know it is all confusing. You’re really nervous because you don’t know who to believe and who is telling the truth. . . . I’d like to hear from the engineers. I don’t want to hear from politicians.”

—Elementary school principal, Mid-City, New Orleans.

New Orleans has been so sluggish, especially compared with neighboring parishes and Mississippi counties that did not institute a forced political planning process. Rather, these communities generally allowed markets to re-emerge and permitted knowledge about the rebuilding process to flow from individual decisions.

Regulation

Government disaster relief is by its very nature bureaucratic and regulated. The sheer amount of money and number of people involved make it virtually impossible for policy makers to design it any other way; the alternative would be massive and widespread fraud and even fewer resources flowing to those who need them most. This regimented structure can stifle or, at the very least, frustrate local leadership driving community redevelopment, generating signal noise that hampers a community's ability to recover quickly.

The case of schools is particularly illustrative. Schools are a key resource for a community and their reopening—a “build it and they will come” strategy (see Section B)—sends a vital signal about the future of a community. Parents are unlikely to see their communities as viable places to rebuild in the absence of schools. Unfortunately, when social entrepreneurs and school administrators try to reopen schools after a disaster, they often face high bureaucratic hurdles, which retard the speed of recovery as parents await clear signals about the future of education.

Doris Voitier, superintendent of the St. Bernard

Parish Unified School District, pledged to reopen a school just eleven weeks after the storm. Initially, Voitier assumed that FEMA's newly created task force on education would lend support to her effort to redevelop the school district, but she soon learned that FEMA's role was not so much to lend support as it was to regulate the decisions coming out of her office, generating noise and uncertainty for Voitier and St. Bernard Parish parents. FEMA officials came to enforce requirements on historic preservation, environmental protection, and section 404 and 406 hazard mitigation. But none had any advice for how to reopen her schools.

Voitier reports, for example, that she has had to become an expert on the Stafford Act, the primary act detailing federal response to natural disasters, as it defines the narrow field within which she can act. Or as one Mississippi hospital administrator put it after describing the differences between Category B, Category E, and Category H restoration and mitigation, “that's why administrators keep our jobs is because we are supposed to try and figure out the regulations [sic].”

Voitier's efforts to operate within the guidelines of the Stafford Act were not enough to keep her in FEMA's good graces. After registering many more students than she initially anticipated, Voitier ordered two additional trailers to use for classroom space. The trailers that were eventually delivered were deemed unsuitable for student use because two doors in each trailer were too close together to meet local fire code. While she went

through several layers of bureaucracy to have the door openings widened, she received permission from a FEMA official to put washers and dryers in one of the unused trailers so that the teachers living in the school's parking lot would have a place to wash their clothes. Soon after, FEMA rotated that representative out of the area. The new representative subsequently placed Voitier under investigation for "misuse of federal property."

The signal noise caused by bureaucratic rules that Voitier encountered—an effect of the wavering rules of the game—slowed her ability to expand the school's capacity to meet the needs of all returning children, which generated further signal noise to parents deciding whether to return to St. Bernard Parish, who needed to know whether they could enroll their children in school. In this way, the signal noise generated in the regulatory environment fed upon itself, multiplying exponentially and slowing recovery.

Similar to the bureaucratic rigidities embedded within federal relief agencies, state and local regulations can also have a stifling effect on civil society's ability to respond in the months following a crisis. After the storm, many parents faced the daunting task of navigating the system of relief services and beginning the demolition process while caring for young children. The temperatures

were high, stress levels were higher, and the lines were long. But professional childcare was in short supply. Some daycare providers did what they could to open their doors to disaster victims in the weeks and months that followed, but state regulators fined them for failure to comply with child-teacher ratios and other requirements.

The parents sent a clear signal—a demand for much needed, safe, and affordable childcare. Childcare professionals easily and correctly read their signal. But the regulatory environment, which was not crafted for a post-disaster context, caused signal noise that prevented childcare professionals from meeting this need.

Most regulations in a society are adopted in times of relative calm. Even under the calmest circumstances, it is often difficult to assess the benefits and costs of a regulation.¹⁸ But in the aftermath of a disaster, however, the calculus of regulation changes dramatically, and assessments conducted during calmer times may be completely inappropriate guides for establishing sound regulatory policy. Rigid adherence to a regulatory code that applies under normal operating conditions can strangle the organic, grassroots recovery efforts that local leadership, voluntary organizations, and businesses undertake. For instance, a limit on the number of children that one childcare worker can

¹⁸ For more on regulation, see Susan Dudley, *Primer on Regulation*, Mercatus Policy Series, Policy Resource No. 1 (Arlington, VA: Mercatus Center at George Mason University, 2005), http://www.mercatus.org/Publications/pubID.2331,cfilter.0/pub_detail.asp.

supervise may be sensible under normal conditions, but after a disaster, the demand for safe and affordable childcare can change dramatically. It may make sense, then, to change or temporarily suspend some regulations in order to speed recovery and a return to more normal conditions.

B.2 NOISE THROUGH THE “FEMA ECONOMY”

Throughout most of American history, local governments and private charitable associations provided care for victims of disaster.¹⁹ Indeed, it was not until 1950 that Congress passed its first law dealing with federal disaster response, and response remained very limited (and mostly focused on responding to a nuclear war) until Congress created the Federal Disaster Assistance Administration in 1974 and then FEMA in 1979. The past thirty years have seen the federal government take an increasingly active role in providing emergency relief supplies to victims of disasters. Simultaneously, the amount of assistance—and critically, the length for which it is provided—has likewise increased.

In the wake of disaster, the government has a key role to play in re-establishing and enforcing the rules of the game that minimize signal noise and allow a robust response to the disaster by civil and commercial society. By ensuring private property rights and enforcing contracts, for example, the process by which property owners discover the

new value of their homes and businesses can unfold swiftly. To this end, it is important for governments to provide police protection and courts that help to enforce these rules of the game. But when the government gets in the business of providing the goods and services ordinarily provided through markets—such as trailers and direct sources of income through extended unemployment compensation to storm victims—well-intentioned policy interventions can create significant signal noise and thereby slow recovery. In this lies a paradox: government policies designed to help by providing recovery assistance may actually harm the intended beneficiaries.

The government’s provision of goods and services long after immediate needs have passed creates what one New Orleanian referred to as a “FEMA economy,” the expansive and distortionary effects of federal disaster relief on the local economy, including the labor and housing markets.

For example, many businesses trying to reopen have found it difficult to attract employees. In part, this is due to the fact that many people simply haven’t returned to the affected region. But the repeated extension of unemployment benefits has exacerbated this problem: despite the availability of jobs and the need for employees, the federal government continues to pay people not to work. Further, the premium wage that government relief agencies pay

¹⁹ Rutherford H. Platt, *Disasters and Democracy: The Politics of Extreme Natural Events* (Washington, DC: Island Press, 1999).

low-skilled workers crowds out private employers from the labor market, stunting the speed of recovery. Service-based companies find the labor shortages particularly daunting as they attempt to bring operations back on line. As one business owner noted, “You’re competing with FEMA; you’re competing with everybody. The contractors that are doing debris pick up and stuff, they are paying big bucks. They are paying \$12 [to \$15] an hour to stand behind a truck with a little [“stop”] sign.”

According to a study released in February 2006, two thirds of firms in the affected region had trouble recruiting workers, and media accounts affirm the recruitment woes of employers.²⁰ And yet in March 2006, Congress extended unemployment benefits for another 13 weeks beyond the 26 weeks of unemployment benefits authorized by the Stafford Act.

The FEMA economy also exacerbates the lack of affordable housing. FEMA workers allotted \$1,200 per month for housing effectively crowd out many low-income residents who receive \$550-\$650 in FEMA rental assistance. Rents in many affected areas of New Orleans have almost

doubled since before the storm.²¹ This is due largely to the decrease in the supply of housing—50.8 percent of rental housing in Orleans Parish suffered severe flood damage or total destruction²²—but the thousands of federal and state relief employees in the city have exacerbated the problem and kept low-income New Orleanians out of their hometown.

To some extent, these consequences may be unavoidable. To the extent that swift debris removal and other key public services are deemed top priorities, wage premiums will certainly facilitate the process. But the longer FEMA workers stay, and the more relief work is treated as a public works project rather than the short-term provision of an essential service, the longer these distortions will persist. As one Mississippi resident observed,

There’s no reason for a business to open up that provides any kind of food service if right down the street you get food [for free] It was necessary for [government] help to be scaled down so our businesses could come back in, start giving us a tax base, start giving these people an incentive to get a job, to work, to get back to normal. That was essential.

²⁰ Ellen Wulforth, “US Hurricane-Area Firms Face Labor Shortage,” *Reuters*, April 5, 2006; “Survey of Compensation Practices in Area Affected by Hurricanes Dennis, Katrina, Rita, and Wilma,” *Salary.com*, February 28, 2006; Brett Anderson, “Feast or Famine? Katrina takes a big bite out of business, but New Orleans restaurants are fighting back,” *New Orleans Times-Picayune*, June 11, 2006.

²¹ Jeffrey Meitrodt, “Rising Rent,” *New Orleans Times-Picayune*, October 15, 2006.

²² Authors’ calculations based on data from U.S. Department of Housing and Urban Development, *Current Housing Unit Damage Estimates: Hurricanes Katrina, Rita, and Wilma*, February 12, 2006, as revised April 7, 2006, p. 23, http://www.huduser.org/publications/destech/GulfCoast_HsngDmgEst.html

“We couldn’t hire social workers because [FEMA] was using them all. We couldn’t hire people, or our people would go to work for FEMA. But it’s these ridiculous prices that weren’t the going rate on the local level. But why they didn’t come to us and say, ‘Okay, you’ve been here for 40 years, you know all these people’? But, no, they didn’t.”

—State government official, Harrison County, Mississippi.

The sooner federal agencies scale back their operations, the sooner local markets and civil society will step in. And the sooner this occurs, the more effectively a sustainable rebuilding process can begin. The longer policy makers extend unemployment benefits, the more difficulty communities will have attracting residents back to work in local businesses—and the longer the recovery process will take.

Large government rebuilding packages also create signal noise because of the length of time it takes to distribute funds and the haphazard manner in which distribution occurs. In its first four months, the Louisiana Road Home Program has awarded fewer than 1,400 grants, and officials are struggling with a backlog of about 79,000

applications.²³ And as of November 11, only 22 awardees have actually received cash.²⁴ Mississippi’s rebuilding program, fully funded by Congress in December 2005, had issued only 41 checks as of the end of August 2006 to a pool of over 17,000 applicants; that is, less than 0.25% of claimants have received relief.²⁵ One Mississippi official explains, “Of course it’s been eight months since Congress approved this money, but we haven’t developed the systems and plans . . . to actually administer the program.”²⁶

Large aid packages invite corruption and incompetent management by public officials, which makes it more difficult still for civil society and market institutions to read accurate signals.²⁷ The inconsistent implementation of such programs

²³ Bruce Nolan, “Blanco Tries to Light Fire Under Road Home Plan,” *New Orleans Times-Picayune*, November 7, 2006.

²⁴ Leslie Eaton, “Slow Home Grants Stall Progress in New Orleans,” *New York Times*, November 11, 2006.

²⁵ John Ydstie, “Federal Money Trickles to Katrina Homeowners,” *National Public Radio Morning Edition*, August 30, 2006.

²⁶ *Ibid.* Scott Hamilton was the state official speaking.

²⁷ Peter Leeson and Russell Sobel, “Weathering Corruption,” (working paper, Mercatus Center at George Mason University, Arlington, VA, 2006).

only adds more noise to a situation already steeped in uncertainty. For many residents, the initial announcement of large scale assistance signaled to them that they should hold off on their rebuilding plans until they received payment, continuing their state of limbo.

Once the immediate crisis point of a disaster has passed and charities, markets, and governments have ensured that basic human needs such as food and shelter are met, government provision of goods normally provided privately creates distortions that inhibit recovery.

In contrast to governments, markets are highly effective mechanisms for coordinating the provision of goods and services; market signals share information about what people need, want, know, have, like, and value. Through these signals people learn how to efficiently produce a variety of goods and services that others need or want. It is for this reason that markets provide the vast majority of goods and services that people want or need. Additionally, the rapid ability of markets to address changing circumstances helps make communities resilient, a key feature of recovery with which signal noise interferes. From daily needs, like food and childcare services, to large purchases, like cars or houses, market signals effectively share information and enable us to fill a variety of needs without any government plan. Markets are a vital part of daily life, and in the aftermath of a storm, their re-emergence is critical to community redevelopment. Indeed, no meaningful recovery can occur without them.

The signals emerging from commercial society provide two key indications to people engaged in the rebuilding effort: they demonstrate what goods and services will be available to returning residents, and more importantly, they serve as a barometer of the long-run prospects of the community. People may trust these signals more than the signals emanating from the political sphere because commercial signals emerge from actual reopenings and commercial transactions rather than from hints or promises from elected officials that may be reneged upon or take months or years to materialize. Concrete, material steps instill confidence, while vague suggestions and about-faces destroy it.

One Mississippi resident spoke of the importance the reopening of national retail stores and fast food restaurants had for community morale:

It was Wal-Mart under a tent. We were all thrilled. Oh, we can go buy pop, or we can get, you know, our essentials. So we were really happy about that. That was a forward motion. And then Sonic opened. We had the busiest Sonic in . . . the whole United States. It made more money in a shorter period of time than any Sonic did for a year in the United States. Amazing. It was like fine dining. Ooh, this is wonderful, you know, 'coz there was nothing else then. There was [sic] no stores. There was nothing that was even halfway resembling normal. I guess when businesses open up and they start being fully operational, it reminds us what normalcy used to be like. . . . Like Rite Aid [opened]

and it was a one hundred percent Rite Aid. . . I didn't go in to buy anything. I just went to walk around and be normal.

Normality is a crucial concept—without the sense that the community is returning to normal, meaning that the basic conveniences of life are provided for in customary ways, rebuilding becomes a much more costly and risky proposition. One retail manager further explains this concept:

If you don't do something to help this community and give them a place to buy groceries and give them a place to buy the necessities of life to rebuild their lives . . . it probably would not be worth your while to [rebuild]. . . . Granted, you know, our customer base probably was cut more than in half. But it probably would be decreasing today had our store and other businesses not decided, you know, just take a stance and come home, you know, and build this thing, and get it back up and running as fast as they can. . . . You have to take a stance, because you have a vested interest in the community. You have a home.

The recovery of commercial and the recovery of civil institutions go hand-in-hand; employers are

lost without employees, and customers are in need of commercial services. Without stores, factories, services—and the jobs and products that they provide—no community can truly recover.

Because of the centrality of markets to meaningful recovery and functioning communities, it is vital that after a disaster, policy makers respect and enforce private property rights and the contracts that were in place before the disaster. If, in response to the disaster, governments deem it necessary to change building codes, elevation guidelines, or other regulations that impact how, where, and when rebuilding can take place, such changes must be made in ways that do not violate the basic freedoms of private property and the rule of law. Further, to the extent that they are necessary, such changes must be made clearly, quickly, and credibly.²⁸ Consistency and credibility of rebuilding codes are crucial. Start-and-stop decisions create signal noise, so it is vital that policy makers avoid changing the rules midstream. Finally, well-meaning government policies that attempt to substitute for the market economy and civil society create signal noise that confuses returning residents and business owners, thereby reducing the speed and increasing the cost of the recovery effort.

²⁸In the context of post-Katrina New Orleans, the lack of either local leaders or the U.S. Army Corps of Engineers to state clearly and credibly how, when, and where levees will be rebuilt has been a major roadblock to rebuilding. This has been further compounded by the failure of the Corps of Engineers before the hurricane to provide accurate estimates of the quality of the levees and FEMA's reliance on incorrect information from the Corps in crafting flood insurance rate maps (FIRMs) that failed to appropriately assess the risk of flooding in many parts of Orleans and St. Bernard Parishes. Because of the history of incompetence and a general distrust of FEMA and the Corps of Engineers, a radical rethinking of flood protection programs may be in order over the coming years.

C. POLICY IMPLICATIONS

C.1 PROVIDE QUICK, CLEAR, AND CREDIBLE COMMITMENTS ABOUT WHAT THE GOVERNMENT WILL PROVIDE AND WHEN.

The best thing that policy makers can do to help communities respond to disaster is to ensure that policy makers respect property rights and the rule of law to allow individuals, communities, and civil society organizations to manage the rebuilding themselves. To the extent that the government deems it necessary to adjust rules pertinent to the rebuilding process, such rules must first respect the basic freedoms that private property and the rule of law provide. Further, such rule changes must be made quickly, clearly, and credibly. Government can support the rules of the game necessary for individuals and communities to recover by acting as an umpire—providing police for protection and courts of law for dispute settlement and, most importantly, not changing the rules in the middle of the game.

To be sure, some rules of the game, such as “should the government provide levee protection?” will be

fraught with controversy. The questions of whether the levees ought to be rebuilt, what level of protection ought to be provided if they are, and whether property owners ought to pay the full costs of insuring their homes and businesses deserve serious deliberation that we cannot render here. However, as long as government manages these systems, its failure to decide clearly and expeditiously what it will do and to carry through on its commitments will perpetuate the limbo in which so many storm victims find themselves.

With the rules of the game in place and property rights assured, the recovery process can begin in earnest as residents and business owners judge how and when to rebuild. If policy makers draw out the decision making process about key rules and policies, the signals generated by civil and commercial society are likely to become noisy and hence less clear and useful to those engaged in the rebuilding process. Rebuilding must be organic, stemming from the grassroots, in order to be sustainable, and only dispersed decision makers reading the signals generated by those around them can manage this process.

“They should have a decision from Congress as to what level of protection they’re going to authorize. . . . What do people have to do if they’re going to rebuild? You know, to what elevations and to what . . . because if there’s no flood protection, the levees aren’t going to be rebuilt, and you can’t get affordable insurance on your house, they’re not going to come back.”

—School administrator, St. Bernard Parish, Louisiana.

C.2 CREATE IN ADVANCE AN ALTERNATIVE REGULATORY REGIME SPECIFIC FOR POST-DISASTER ENVIRONMENTS, AND DEVOLVE POWER OVER THE REBUILDING EFFORT.

One way to facilitate the production and execution of clear rules of the game is to have disaster-appropriate rules and regulations written before the onset of crisis with a clear trigger for execution. Such “regulatory preparedness” would reduce the uncertainty that stems from the slow-moving political process and would establish alternative regulations for the post-disaster context when, for instance, child-to-adult ratios in day care centers, normal debris disposal procedures, and pollution control gasoline formulations may not be appropriate.²⁹ Ideally, these rules would include a clause for automatic execution after, for instance, a presidential or gubernatorial declaration of a major disaster. In many cases, bureaucrats in the Gulf Coast have had to bend or break the rules in order to make progress in recovery efforts. An alternative regulatory structure recognizing the different costs-benefit calculations in the post-disaster context would reduce non-compliance and help ease some of the bottlenecks that slow recovery. Most importantly, it would make it easier to provide the quick and clear signals that communities need to recover and reduce the signal noise associated with changing regulations on the fly or selective and unstable enforcement on the ground.

An automatic trigger for such a regime reduces the ability of special interests to attempt to alter the process or change individual rules. Implementing the alternative set of regulations automatically and as a complete package speeds enactment of the alternative regulatory regime and ensures that people know before a disaster what to expect in its aftermath. An automatic trigger would also be in line with existing policies; a presidential disaster declaration already triggers dozens of automatic responses under the Stafford Act and other legislation.

Local ownership of the rebuilding process is critical. Federal response should not erect roadblocks to competent local leadership, but should instead support and inform effective decision making on the ground. To the maximum extent possible, recovery efforts should be managed as locally as is feasible—as close to those with the needs and relevant knowledge as possible.

Congress should shift the primary responsibility of relief agencies from one of regulatory oversight to one of support and advice. The provisions articulated in the Stafford Act, and the narrowness with which FEMA representatives frequently interpret these provisions, unnecessarily tie the hands of local leadership. While policy makers may deem it necessary to enforce some general guidelines for safety and accountability, local

²⁹ For more on gasoline regulations and the federal government’s successful response, see Alastair Walling, “The Katrina Success Story You Didn’t Hear,” *Regulation*, Spring 2006.

leadership also needs the flexibility and discretion to make marginal choices about how relief funds are spent.

C.3 AVOID POLICIES THAT DISTORT LOCAL ECONOMIES AND HAMPER CIVIL SOCIETY REBUILDING.

After a disaster, elected officials should not respond by attempting to make whole the victims of the storm through targeted and bureaucratic initiatives. The sentiment is noble, but the action is impossible. Because they lack the ability to discover knowledge of what people need, when they need it, and how it is best delivered, governments simply cannot provide the goods and services that are vital for rebuilding. When governments do try to intervene to provide these goods, they end up creating signal noise that slows the recovery process. Additionally, they introduce an element of uncertainty that makes it more difficult for individuals, families, and communities to rebuild.

Social capital and the signals provided by civil and commercial society, supported by property rights, freedom of contract, and the rule of law, are crucial to rapid and sustainable recovery efforts, so policy makers must evaluate policy interventions to ensure that they do as little harm as possible to organic response efforts. For this reason, providing any relief that policy makers deem necessary through quick and unrestrictive

means is vital. The more restrictions and tests placed on relief, the slower it will arrive and the more signal noise and economic distortion it will cause. In this vein, one-time cash payments are preferable to means-tested continual assistance.

Further, housing vouchers are preferable to FEMA trailers. Recipients could use voucher funds to rent an apartment, renovate a damaged property, serve as a down payment on a new home, or purchase a small modular home that they can later expand such as a “Katrina Cottage.”³⁰ Such a policy would be vastly more efficient and humane than temporarily providing everyone with a FEMA trailer and would inspire a wide range of market responses to meet the housing needs of disaster victims. To further minimize bureaucracy, policy makers should not means-test vouchers. It should distribute them using simple and straightforward criteria—the fewer criteria the better.

Policy makers must recognize that it is not just atomistic individuals, but entire organic social structures, that recover after a disaster. Markets and civil society institutions are vital aspects of a functioning society, and policies must allow their expedient and thorough recovery. Communities are not sustainable without the recovery of retailers, factories, service providers, and the jobs that these businesses create. Policy makers should avoid the temptation to implement targeted pro-

³⁰ For more on Katrina Cottages, see Witold Rybczynski, *Slate*, March 31, 2006, <http://www.slate.com/id/2138981/>

grams designed to spur such redevelopment. By far the best course of action is simply to establish quickly rules of the game that will allow social structures to rebuild internally.

It is vital that elected officials avoid signaling any policy changes that have not been deliberately considered, particularly for their unintended negative consequences. If they bear even a hint of government sanction, cavalier proposals that suggest that policy makers may not honor individual property rights will create unnecessary and catastrophic uncertainty, not just among those most directly affected, but also among neighboring communities and potential investors. Just as an ill-considered comment from the Chairman of the Federal Reserve Bank can have massive effects on the stock market, a poorly considered utterance from a mayor or governor can cause people to radically rethink their plans in the wake of a disaster.

Finally, planning authorities must stay out of the business of picking winners and losers in the post-disaster economy and instead restrict their involvement in economic redevelopment to that of the neutral umpire. To the extent that local, state, and federal authorities are engaged in redevelopment planning (an engagement that should be minimal, clear, and credible), their plans should aim to produce as little signal distortion as

possible by offering, for example, general tax credits for all business, rather than targeting particular industries or businesses that existed before the disaster.

CONCLUSION

After a disaster, it is natural for people to clamor for quick action. Because elected officials respond to political pressure, they tend to do what is easiest: promise large sums of money to help fix the problem and develop radical new plans for affected areas. But while these policies may appeal to voters and to elected officials who want to “do something,” they are not ultimately conducive to helping communities rebuild. Well-intentioned policies that appear at first glance to be helpful to those in need may have unseen costs that can have significant negative effects on recovery.

Individuals rebuild around one another. For this reason, it is vital that policy interventions free individuals to deploy their social capital as an asset in rebuilding.³¹ Indeed, social capital functions best in a market setting backed by the rule of law and respect for property rights, as it allows civil society actors (including individuals, non-profits, churches and religious groups, community associations, and businesses) to generate the signals needed for recovery—signals that respond quickly to new information and oppor-

³¹ Emily Chamlee-Wright, “After the Storm: Social Capital Regrouping in the Wake of Hurricane Katrina,” (working paper, Mercatus Center at George Mason University, Arlington, VA, 2006).

tunities and that result in superior outcomes to top-down plans. Because of the importance of social capital in reconstruction efforts, governments must resist calls to impose order on the decentralized process of community, economic, and philanthropic discovery. Signal noise created when governments consistently shift the rules of the game impacts the ability of communities to utilize their social capital, which affects the sustainability of rebuilding.

After a disaster, public outcry places tremendous pressure on governments to act, but if policy mak-

ers authorize large expenditures and new programs without consideration of negative unintended consequences of their decisions, the effects may cause serious harm. After immediate human needs are met, governments must stand back and allow the rebuilding process to unfold organically. Communities are highly resilient in the face of disaster, and social capital is a vital asset to recovery. Success depends on the ability of individuals, families, and communities to read the appropriate signals about how to respond to best fit their particular needs. Cities are built organically. They must rebuild that way as well.

ABOUT THE MERCATUS CENTER

The Mercatus Center at George Mason University is a research, education, and outreach organization that works with scholars, policy experts, and government officials to connect academic learning and real world practice.

The mission of Mercatus is to promote sound interdisciplinary research and application in the humane sciences that integrates theory and practice to produce solutions that advance in a sustainable way a free, prosperous, and civil society. Mercatus's research and outreach programs, Capitol Hill Campus, Government Accountability Project, Regulatory Studies Program, Social Change Project, and Global Prosperity Initiative, support this mission.

The Mercatus Center is a 501(c)(3) tax-exempt organization. The ideas presented in this series do not represent an official position of George Mason University.

ABOUT THE MERCATUS POLICY SERIES

The objective of the Mercatus Policy Series is to help policy makers, scholars, and others involved in the policy process make more effective decisions by incorporating insights from sound interdisciplinary research. The series aims to bridge the gap between advances in scholarship and the practical requirements of policy through four types of studies:

- **POLICY PRIMERS** present an accessible explanation of fundamental economic ideas necessary to the practice of sound policy.
- **POLICY RESOURCES** present a more in depth, yet still accessible introduction to the basic elements of government processes or specific policy areas.
- **POLICY COMMENTS** present an analysis of a specific policy situation that Mercatus scholars have explored and provide advice on potential policy changes.
- **COUNTRY BRIEFS** present an institutional perspective of critical issues facing countries in which Mercatus scholars have worked and provide direction for policy improvements.

MERCATUS CENTER
GEORGE MASON UNIVERSITY

3301 North Fairfax Drive, Suite 450
Arlington, Virginia 22201
Tel: (703) 993-4930
Fax: (703) 993-4935