

Global Prosperity Initiative
Working Paper

**Amateur Public Choice and Regime
Uncertainty in Post-Katrina New Orleans**

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Abstract

Residents and business owners seeking to reestablish themselves in areas affected by Hurricane Katrina face a situation fraught with Knightian uncertainty. This paper argues that government involvement in the rebuilding process, far from alleviating the problems of uncertainty, exacerbates them. In order for government policy to be effective in this regard, residents would have to treat the determination of policy as exogenous to their mental models. Ethnographic evidence to the contrary is presented, illustrating that New Orleans residents are well aware of the importance of policy determination and so are subject to an additional source of uncertainty in the political process itself.

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It's become a familiar refrain over the last 10 months: There will be clarity. Just wait. Wait for the federal flood maps to come out. Wait for Congress to approve that second round of Community Development Block Grants. Wait for HUD to decide how to rebuild public housing. Wait for voters to elect a mayor and City Council to oversee the rebuilding of New Orleans during this critical stage. And, of course, wait for the neighborhood planning process to happen.

Well, we waited. So where's that clarity?

—Stephanie Grace, "A City Adrift," The Times-Picayune, June 22, 2006

1 Introduction

The upheaval caused by Hurricane Katrina and its aftermath is unrivaled in American history. A major city was displaced, along with several smaller coastal communities. The recovery from such a disaster cannot take place overnight. In studying the rebuilding of the city and advising policy makers, economists should be attentive to concerns not easily captured by traditional research methods and theoretical frameworks. This paper attempts to cover some of the empirical and analytic blind-spots generated by limiting the scope of research to what can be quantified and mathematically modeled.

Traditional empirical methods necessarily take an *ex post* perspective, analyzing a situation after the dust has settled. The arguments presented here instead render a perspective *in medias res*, to understand the rebuilding process *as a process*. Such a perspective illuminates concerns that are obscured by a static treatment. Though not necessarily more grave than those highlighted by standard statistical analysis, but they nonetheless merit the attention of policy analysts.

Constructing a perspective *in medias res* requires both unorthodox theory and unorthodox research methods. The theory is one discarded decades ago by most orthodox economists: Frank Knight's concept of uncertainty. Section 2 offers an account of Knightian uncertainty that treats it as a framing category for empirical analysis that is very similar to scarcity. While the concept offers little or no value to standard *ex post* analysis, it is invaluable for understanding economic processes, such as the rebuilding process in New Orleans and along

the Gulf Coast.

Empirically operationalizing uncertainty requires a ‘thick’ data set that captures the perceptions and beliefs of agents involved in the recovery process. A view from the inside is necessary for the development of a process perspective. Section 3 presents ethnographic evidence that this process is fraught with Knightian uncertainty generated by the sheer scope of the task of reconstituting an entire city.

Public choice economists have long argued that policy analysis is not complete until the framework in which policy decisions are made is also accounted for. Section 4 builds on this argument, making a case that, from a perspective *in medias res*, not only is the process of political decision-making important, but so too is the perception of that process by residents attempting to rebuild their lives. The amateur public choice economists walking the streets of the Big Easy have their own mental models of how political decisions are made, models that impair the ability of policy to mitigate uncertainty. Federal involvement in the recovery process thus creates a problem of regime uncertainty, which likely carries deleterious consequences for both the welfare of residents and the speed of recovery.

2 The Role of Uncertainty in Economic Analysis

Serious consideration of uncertainty in economic theory must begin with the work of Frank Knight. Knight introduces uncertainty as the barrier between perfect competition and the real world (Knight 1921, p. 197-8). In *Risk, Uncertainty, and Profit* Knight broods not over other roadblocks to perfect competition (such as barriers to entry), concerning himself instead with uncertainty’s incompatibility with equilibrium. Equilibrium obtains only when agents perfectly anticipate the future, too heroic an assumption in the face of uncertainty. Knight presents a framework that accounts for the existence of uncertainty and explains how agents cope with it. As a foil to equilibrium, Knightian uncertainty is a *sine qua non* of process analysis.

Knight's exposition begins with consciousness. Consciousness guides action and is characterized by "it's forward looking character" (*ibid.* 200). Humans act not according to stimulus-response, but rather anticipation-response. Expectation, not bare sensation, guides action. Successful anticipation depends on regularity in the succession of phenomena. A complete absence of regularity dooms the predictive enterprise. Man recognizes such regularity by classification, grouping similar phenomena and using the observed behavior of other instances of a class as the basis for predicting the behavior of the instance he presently encounters.

In order to describe the phenomena that man encounters, Knight appeals to John Locke's metaphysics, arguing that the objects of experience are complexes of constitutive elements. Complex phenomena come in an infinity of varieties, but their constitutive elements number far fewer. Understanding this constraint on cosmic complexity opens the door to empirically applying Knightian uncertainty.

Finite intelligence is able to deal with the world... because [t]he number of distinguishable properties and modes of behavior is limited, the infinite variety in nature being due to different combinations of the attributes in objects. (*Ibid.* 207)

This step brings us back to action. Man faces some situation, a situation which can be treated as a complex phenomenon. A variety of elements which will influence the success of his action constitute his situation. Knight identifies two poles between which all such situations fall. *Risk* describes the condition in which instances near enough to the present situation are of sufficient number to allow abstraction from the constitutive elements (*ibid.* 213, 233). That is, the situation can be treated as a member of a class. Such situations call forth a *probability judgment*. The construction of actuarial tables relies on this possibility, and insurance becomes a live option when instances can be grouped into sufficiently homogenous classes.

Uncertainty describes situations which cannot be so classified. In this case, man must rely on his knowledge of the constitutive elements of his situation. Since he lacks observations

of sufficiently similar situations, he must form an *estimate*, not of *probable* outcomes but of *possible* outcomes¹ (Langlois and Cosgel 1993).

The essential and outstanding fact is that the “instance” in question is so entirely unique that there are no others or not a sufficient number to make it possible to tabulate enough like it to form a basis for any inference of value about any real probability in the case we are interested in. (*ibid.*, p. 226)

Knight argues that business plans exemplify such uniqueness and thus defy classification (*ibid.*). Business failure insurance is impracticable because “instances” (note that the word does not really apply when there is no associated class) are heterogenous.

Two obstacles make the empirical application of Knightian uncertainty a thorny matter. First, standard econometric techniques offer no help. Situations of uncertainty necessitate that agents construct a possibility set, while statistical methods only capture *ex post* results rather than forward-looking expectations. Starting from the endpoint, only risk can be observed; the array of relevant variables is decided upon in the modeling process after the outcomes have already emerged. Taking uncertainty seriously, then, requires that we push to the back of our minds the final result or, when possible, study an ongoing process. Practically, this necessitates the use of ‘thick’ empirical research methods, such as ethnography and archival work, in order to understand the mental models that agents ‘on the ground’ use to construct the possibility projections that guide their actions.

Second, risk and uncertainty bound the range of action situations. Man inhabits the space between them, never approaching either limit. Uniqueness is a matter of degree for Knight, and no situation lies at either extreme. Uncertainty always obtains, but in varying degrees.² Testing for uncertainty’s presence is thus impossible.

¹Knight does not deny that probability judgments are always made in such cases, only that they are preceded by possibility estimates (*ibid.* 214, 226-7). They are to be seen as complements rather than substitutes; estimates cannot be reduced to subjective probability judgments. Most neoclassical economics makes no use of this distinction. Knight was writing before the widespread use of subjective Bayesian probabilities in economic modeling, so his theoretical apparatus appears outdated at best and wrongheaded at worst (LeRoy and Singell 1987). Knight’s position differs from the modern framework in denying that agents have probabilities for *all possible outcomes* (the operating assumption of the Savage axioms).

²That is, a two stage estimate of possibility and judgment of probability always takes place.

Operationalizing uncertainty requires treating it as a framing concept rather than a falsifiable prediction. In this regard uncertainty bears a strong resemblance to scarcity as a condition of man's environment that elicits a response. Scarcity calls forth economization, uncertainty estimation. The economist's role is to use these concepts to render intelligible human action in a given context and to illuminate the consequences of changes in that context. In light of the universal condition of scarcity, the economist explains agents' allocations by examining incentives, and changes by way of marginal adjustments. In light of the universal condition of uncertainty, the economist explains agents' estimates by examining the elements of their situation they perceive to affect the success of their plans, and changes in uncertainty by understanding their mental models for intruding elements.

In the next section, I offer a taxonomy of elements that residents of New Orleans and the Mississippi Gulf Coast perceive as muddying their expectations of the Post-Katrina recovery process. In the fourth section, I make a case that federal involvement is likely to exacerbate rather than mitigate the concerns concomitant with that uncertainty.

3 Elements of Post-Katrina Uncertainty

The evidence here deployed to illustrate the existence of Knightian uncertainty in the post-Katrina recovery process was gathered using qualitative ethnographic research methods. A team of researchers conducted a total of 63 interviews with a total of 71 residents of afflicted areas between February and July 2006. This interview data is supplemented by local newspaper articles from the dominant local paper, *The Times-Picayune*. The interview method unearths the perspective of residents, business owners, and community leaders. It seeks their opinions as data that agents act upon, not as a portrayal of objective reality; people act upon beliefs, not facts. Its advantages include capturing local knowledge, providing insight into the *process* of recovery rather than merely the *ex post* results, and the discovery

of unexpected causal influences.³

Uncertainty in the rebuilding process is largely a function of the magnitude of the disaster. The storm uprooted the whole population of New Orleans and much of the Mississippi Gulf Coast. Some inhabitants and businesses will never return again; some still wait. For most residents, this means that each node in the network that constituted their neighborhood has to be reestablished or replaced (perhaps temporarily). Each household and business must ask whether their community will hit the tipping point of sustainability and when. A community religious leader explains the dilemma:

I mean the number one connection that Americans seem to make with 9/11 is simply irrelevant... it's a different thing because it's the whole community, it's the whole structure, it's the whole uncertainty, it's everything from "someones house is in tatters" to "my dry cleaner doesnt have a tailor to mend" – the whole mechanism.

Residents face the task of rebuilding an entire community. Thus, anything that constitutes or significantly influences an important part of the community bears relevance to the outcome of the process. In Knightian terms, the relevant elements of their action situation number scarcely less than the number of elements that defined their community before the storm. Those community structures congealed over many years; which of them might be able to come back, and when, is still a question of paramount importance to those have returned and may return. The storm and its aftermath influenced everything. One resident sums it up nicely: "[P]ick up the newspaper. Every story is a Katrina story. And if its not a Katrina story, it doesnt seem like a Katrina story at first but it [is] ."

Residents have experience as to how the pre-Katrina social elements functioned together, as a whole; it is an entirely different matter to surmise what will happen when only some of those elements are present. They are interdependent and interwoven. The analyst omits integral facets of the problem when he models expectations concerning such elements as scalar

³This paper is the result of such discoveries, not having been part of the vision of the original research. For two papers using the same data set, along with a more exhaustive discussion of the research method, see Chamlee-Wright (2006a, 2006b).

effects numerically aggregated to produce a vector result. Such a treatment may bear fruitful insights in an *ex post* evaluation, but obscures vital aspects of the recovery as a process. In order to capture such aspects, the analyst must treat elements morphologically, more akin to atoms coming together to form complex molecules with distinctive characteristics. Different combinations produce radically different results. When all of them are wiped out, the question of whether, when, and to what degree each will return, and what the effects will be, presents the resident with a highly uncertain situation eliciting possibility estimates.

Layered on top of this process of reconstitution of the pre-Katrina community are a number of elements that have come into play only after the storm. Human nature, government involvement, and the simple flow of time dictate that the community that returns after the storm will be far from a carbon copy of what was there before. Pre-existing elements reconstitute their social networks in new ways, both by virtue of their interaction with other pre-Katrina elements and with newer, post-Katrina influences. An interview question about whether a resident expected her Mississippi community to rebound strongly prompted the following response:

Our beach community that used to be our upper class is now the new middle class and the middle class almost just seems to be left out of the picture all together, the once-upon-a-time lower class is now almost the upper class because everything was available to them. The middle class didn't qualify for anything, the upper class lost everything because the surge took them and the insurance won't pay them, then there are those people that just fell through the cracks all together, it is really a long road. Hard to tell.

Our research demonstrates that this wide array of causal factors—both in terms of reconstitution and new, post-Katrina elements—is deeply interconnected in the minds of returning residents and businessmen. Of course, circumstances vary from person to person, but even among common, representative concerns the number of issues that people expect will affect their ability to bounce back is vast.

Among the most pressing and frequently expressed concerns is the necessity for residents of having both a place to live and a source of income. Conversely, businesses need employees

that have a place to stay. Timing is crucial: an open job with no available housing, or vice versa, makes moving back a gamble. Unemployment benefits further complicate the terrain by creating a disincentive to return to work. Meanwhile, relief agencies snatch up labor and living accommodations. The connections between these issues are readily recognized by residents.

Here the biggest concern is employees. Employees and employment. And of course, that goes hand in hand right back to housing. But I think a real test is gonna be when the unemployment benefits run out in June.

In addition to finding temporary housing, homeowners must also deal with repairs to their homes. Complaints by residents about complications involving insurance were endemic.⁴ Insurance rates were based on flood maps that assumed the levies would hold, so it is no surprise that the insurance companies took a blow from Katrina; like a bank run, this creates uncertainty as to who will be able to cash out their policy. Government relief funds, with their associated labyrinthine bureaucracies, suffered from the same problem. Residents and business owners that we spoke to expressed outright bewilderment as to why they had been either approved or rejected for FEMA grants or SBA loans.

Concerns about funding repairs are only part of the homeowner's story; technical problems of the actual repairs abound. Many residents explained how they had to teach themselves how to do basic construction work, including hanging sheetrock and performing mold remediation. For those who could afford to have others repair their homes, finding reliable contractors was also a thorny issue. The market for construction work exploded, without sufficient time for the competitive winnowing out of less capable contractors.

Basic services were also up in the air. The number and proximity of grocery stores, restaurants, and hardware stores directly affects the success and speed of recovery. Electricity must be turned on. And, of course, in the wake of such a disaster the disposal of debris and other garbage becomes a major concern. One business owner expressed his concerns thusly:

⁴Several interviewees even expressed surprise that there were no reports of violence against insurance adjusters.

And you see trash. The building next door to me has been having their trash out now, outside now for probably 3 weeks. If you look around, they're still not picking up. I'm not sure if they corrected it yet, but you know, all this hurts the parish. You know, it stops people from you know, wanting to come back when you have trash.

Another very common concern is schooling.⁵ Parents deciding whether and when to return worry about whether their children will have a school to attend. Despite heroic efforts by some school administrators (Chamlee-Wright 2006a), schools are often at capacity or too far away. One law enforcement officer noted that the police had to ignore truancy laws since many children simply did not have schools to attend.

What was described by one resident as the "Sword of Damocles" also hangs precariously over the heads of New Orleanians: the threat of another flood. The weather is, of course, beyond control, but what sort of protection the city can count on is very much a live question. What level of protection will Congress support? Will the Army Corps of Engineers do the job right? What about the protection offered by wetlands? How will this affect the flood maps and insurance rates? The ambiguities concerning the answers to these questions permeate the New Orleans landscape.⁶

Interviewer: And I would assume that you're not too keen on those... plans where some neighborhoods just wouldn't be allowed to rebuild?

Interviewee: Well, I think there's a time that we have to look really closely at that, then may be. But it depends on the level of protection you're gonna have... [T]hey're intertwined. You know, if we're gonna have a restoration of the barrier islands and the wetlands further out and the levee protection, then you can rebuild more of the community. But if there's gonna be a tradeoff in terms of a lesser degree of protection in having to make those modifications, then, well, that's reality. The worst part is the not knowing. The worse part is having no decision at all.

Even if all of these factors line up to a satisfactory degree, there still remains the question

⁵For a timeline of action involving the public schools through mid-summer, see Steve Ritea, "Shaking up the Schools," *The Times-Picayune*, July 3, 2006.

⁶The plans released in November by the state are drastic, and "would dramatically change the shape of the state's coastline at a cost estimated to reach the tens of billions of dollars" (Mark Schleifstein, "State maps plan for coastal projects - Billions of dollars of levees, dikes urged," *The Times-Picayune*, November 9, 2006).

of how much the community will resemble its pre-Katrina self. New Orleanians fret that the city will lose some crucial factor that shaped their city's identity. Residents frequently express concern over the influx of migrant hispanic workers, altering the ethnic makeup of the city; this concern is connected to the limited amount of housing and in combination with the uncertainty regarding public housing projects, which have been slow to reopen to their former, predominantly African-American, inhabitants.

One pre-Katrina element of the community that most residents would like to see gone, the historically high crimes rate, also weighs on the rebuilding process. One interviewee postulated that a return to pre-Katrina crime rates might stifle any influx of young professionals and entrepreneurs crucial to the long-term growth of the city: "I think you'll take a risk on the flood. You're not gonna take a risk on being killed."

Understanding uncertainty illuminates behaviors that respond to that uncertainty. Grasping how agents in the midst of a recovery mitigate uncertainty is a crucial part of understanding the recovery as a process. Such uncertainty-mitigating activity is a distinguishing characteristic of those communities that have come back more quickly and successfully. Blue ribbon ceremonies which publicize the reopening of key businesses signal that the business is committed to making an investment in the community. Neighborhood organizations serve as important conduits of information and mutual support.⁷ The return of key players in the community is also critical, including schools and religious organizations. In New Orleans East, the first community to have their power turned on, the pastor of the local Vietnamese church spearheaded the community's return.⁸ For an extensive account of these sorts of responses, see Chamlee-Wright (2006a).

Other analytical issues directly concern welfare and policy. Why should we be concerned with uncertainty? The obvious answer to this question is that, insofar as people take actions to mitigate uncertainty, it obviously represents some sort of felt uneasiness. Uncertainty therefore has welfare consequences, as confirmed by both experimental evidence (Smith

⁷See Coleman Warner, "Bound to Build," *The Times-Picayune*, May 29, 2006.

⁸See Leslie Williams, "Down, But Not Out," *The Times-Picayune*, June 16, 2006.

1969, Sherman 1974) and our own field research:

Interviewer: What are you seeing mostly in terms of the things that are really stressing people out, what if you had to name the particular things?

Interviewee: Well, its uncertainty. Its number one...

Interviewer: Where is the uncertainty coming from?

Interviewee: Every direction.

If uncertainty is both endemic and problematic, the economist naturally wants to speculate about the effects of government policy on uncertainty. The next section gauges the effectiveness of federal involvement in its mitigation.

4 Regime Uncertainty and the Political Process

Any discussion of policy regarding uncertainty must take account of the fact that the elimination of uncertainty is impossible. As noted above, however, there are mechanisms for mitigating uncertainty. Knight argues that agents move from uncertainty to risk by grouping instances of a class. Whether a particular building will burn down may be uncertain, but by virtue of the law of large numbers actuarial tables can be constructed to set up an insurance scheme, mitigating uncertainty and moving closer to pure risk. An economist might argue that government, as the provider of “social insurance,” can perform this function with relief and recovery efforts.⁹

Good reasons for skepticism abound. Emily Chamlee-Wright (2006b) catalogues multiple instances in which signals generated by private activity that would direct the post-Katrina recovery process are distorted by government “noise”. Noise does not exacerbate uncertainty, but rather serves to impair or negate its private, bottom-up mitigation.¹⁰ Such distortions in turn prolong the recovery process. This argument is compelling but raises the possibility of

⁹I do not wish to catalogue here the whole array of advantages and disadvantages of the federal government’s involvement in disaster recovery; I shall remain focused whether government policy can alleviate uncertainty.

¹⁰Government-generated signal noise is thus akin to price controls. Price controls do not create scarcity, but rather shortages, impairing the economizing response to scarcity.

a justification for government involvement based on scale. It would seem that federal policy, even if it distorts existing signals, is such a decisive element that it swamps other disturbing factors, actually reducing uncertainty. Government is a ‘big player’ that can exert a decisive influence on the rebuilding game. That is, the causality it exerts is of such a magnitude that the potential interference of other elements becomes mere background noise. In what follows I attempt to meet this challenge.

The big player argument might be sound if it did not presume that agents on the ground take policy as given. Even if the federal government’s influence is sufficiently large to swamp other influences, it’s own actions are far from certain. Insofar as residents try to ascertain what the nature, extent, and timing of federal aid will be, whatever factors they believe to affect the government’s decision become relevant to the success of their own plans. The involvement of the federal government necessarily involves a politicization of the recovery process that has two possible effects: regime uncertainty generated by politicization can either displace or add to existing uncertainty. Federal involvement thus at best has an ambiguous effect on uncertainty, and may in fact exacerbate the problem.

Robert Higgs (1997) discusses ‘regime uncertainty’ in his work on the Great Depression. Higgs uses survey data to make a case that an uncertain U.S. political climate scared investors and thus slowed the recovery in the late 1930’s. Investors believed that Roosevelt might be willing to take drastic strides towards socialism. Since they would be the divested class, such a belief had direct bearing on investors’ estimates of the success of prospective plans. For this reason regime uncertainty can be understood as a species of Knightian uncertainty. Its origins lay in the beliefs of those who might be affected by government policy.

Ethnographic evidence uncovers two sources of regime uncertainty in post-Katrina New Orleans. First, residents and business owners do not treat policy determination as given. All eyes are on Congress and President Bush. Second, even once policy is determined, residents are plagued by doubts about the efficacy of labyrinthine bureaucratic procedures for carrying it out. To the extent that federal involvement overlays but does not completely displace

private activity, uncertainty is exacerbated; regime uncertainty compounds the problems created by existing uncertainty, including prolonging the recovery. To the extent that federal involvement swamps or displaces private activity, the results are instead ambiguous.¹¹

The first problem of policy indeterminacy is similar to the game between policy makers and private actors discussed by Sargent and Wallace (1975). Whereas rational expectations assumes that agents have a model of the economy which they use to analyze the effects of policy, I argue that the residents of New Orleans and Mississippi have implicit mental models of government that they use to form anticipations about the determination of policy. It is not necessary that these beliefs be accurate, only that they exist, to create uncertainty.¹² If the residents of New Orleans and the Gulf Coast are amateur economists, they are amateur public choice economists.¹³

Once the federal government becomes involved in the recovery, whatever is seen to affect federal government policy is likewise seen to affect the recovery. Given the role of the United States federal in geopolitics, a vast array of new causal influences descends upon the area. Ongoing military operations in Iraq are seen as competing for both the funds and the attention of policy-makers in Washington, D.C. The popular slogan, “Make levies, not war,” appears on posters and t-shirts, indicating that this is a widespread belief. Concern in the Big Easy over what is happening in Baghdad centers on funding and timing; while there is little doubt that Congress will do *something* for the storm victims, the questions of how much and when are far from certain. These concerns are aired frequently in the editorial page of *The Times-Picayune*, the major local newspaper:

We shouldn't have to ask for new homes. That's not how we have lived our lives here. But we see in the newspaper that the United States spent \$7 billion in Iraq last month, with plans to continue at that rate for at least the next 30 months.

¹¹Unless, of course, some reliable uncertainty metric could be fashioned.

¹²Even if we assume rational expectations, agents would be aware of Arrow's impossibility theorem and know that there is no unique equilibrium which will be the result of the democratic process. One implication of such a belief would be a concern over agenda control, which there is ample evidence for. (Arrow 1963)

¹³One could argue that public choice beliefs come even more naturally than other economics propositions, since public choice infers intentions from outcomes rather than discussing unintended consequences.

(July 16, 2006)¹⁴

It is crucial that President Bush do everything possible to get these appropriations passed quickly. The House has already jeopardized a speedy decision by combining the president's request for \$19.8 billion in aid for the Gulf Coast to his request for additional military spending in Iraq and Afghanistan. That raises concerns that the appropriations bill will be ensnarled in controversy that will delay its passage. (March 8, 2006)¹⁵

Category 5 hurricane protection for the region, including coastal restoration, storm-surge barriers and improved levees, would cost about \$40 billion over 30 years... Compare that with the fact that in the past two years, we have spent more to rebuild Iraq's wetlands than Louisiana's. (March 4, 2006)¹⁶

It should be noted that the last quoted passage above comes from former Speaker of the House Newt Gingrich and John Barry, influential author of the immanently relevant *Rising Tide*. Influential persons call for New-Orleanians and Gulf Coast residents to be aware of the political process that will play a large part in deciding their future. They preach to the choir. The comparison between the cost of the levees and the cost of the war in Iraq was brought up as an interjection into our first interview in April in a Mid-City coffee shop.

Concern over the determination of federal government policy in the wake of the disaster is endemic. One metric of the extent of politicization is the number of articles in the local newspaper that deal with federal involvement versus the number of articles that deal with private-sector rebuilding concerns, such as insurance. For the calendar year 2006, the terms "Bush" and "Katrina" jointly appeared in articles 1,035 times in *The Times-Picayune*; "Congress" and "Katrina" appeared together an identical number of times.¹⁷ Excluding the 380 article intersection between these two sets gives a total of 1,690 articles, compared to 1,875 joint occurrences of "insurance" and "Katrina," meaning that just these two terms

¹⁴Briley Richmond, "Hard-working Volunteers Give Officials Cover," *The Times-Picayune*, July 16, 2006.

¹⁵Staff, "Lives on Hold," *The Times-Picayune*, March 8, 2006.

¹⁶John Barry and Newt Gingrich, "City's Weakness Also Its Strength," *The Times-Picayune*, March 4, 2006.

¹⁷The timeframe was selected so as to avoid news coverage of the storm and its immediate aftermath, which would have biased the results towards federal involvement in immediate rescue operations before rebuilding began. The words "meetings," "numbers," "movies," and "candidates" appearing the headline were controlled for to avoid catching daily articles with repetitive text. The same controls were used on all searches. "State congress" was controlled for in the text of the articles in the "Congress" search, but, interestingly, this only excluded 2 articles.

for indicating federal involvement are discussed in relation to the hurricane roughly 90% as often as insurance is.

Even once the debate over aid has played itself out at the federal level, however, there are still more uncertainty-generating facets of federal involvement concerning the distribution of aid. This concern takes two primary forms: competition between affected areas for Uncle Sam's attention and dollars, and belief in the corruption and ineptitude of local government officials. Mississippi residents often expressed the former concern, articulating a frustration with the amount of attention being received by New Orleans:

I have been agitated over the New Orleans thing because New Orleans was not hit by Katrina. New Orleans had problems that were all man-made and that were going to happen in the first bad rainstorm. They seem to have been getting a disproportional amount of attention and there are still people everywhere that have no idea that Mississippi was hit by Hurricane Katrina.

Louisiana residents, on the other hand, are well aware of the corruption that pervades their state government, and wonder how much federal money will actually make it through local channels:

There seems to be a lot of finger pointing and there's a lot of jockeying for position. There's going to be a lot of federal money coming down here. That's probably gonna have to go through Baton Rouge first before it gets here. And it's probably gonna be misspent.

Also important to residents is, of course, how the federal government will help provide protection against future storms, both in the form of preventative measures and emergency relief. The placement of FEMA under Homeland Security after 9/11 has received some attention, with national and local writers criticizing policies laid down in the wake of the terror attacks as having seriously impaired FEMA.¹⁸ The implication is, of course, that residents have good reason to believe that responses to future floods might be dictated by policies developed as a result of the ongoing "War on Terror." There is no more certainty with regards to future flood protection. New flood maps are not due out until 2007, and

¹⁸See Staff, "FEMA Reform," *The Times-Picayune*, August 30, 2006.

even the Army Corps of Engineers' recently unveiled plan, *if* it is accepted by the Corps' own review process, will only serve as the beginning of another round of debate between policy makers:

If implemented, the plan would dramatically change the shape of the state's coastline at a cost estimated to reach the tens of billions of dollars. The plan, a draft to be officially released Nov. 29, represents the state's first concrete statement on the array of massive engineering projects – such as levees, dikes and freshwater diversions – that officials believe it will take to save the state's coastline and protect hundreds of thousands of South Louisiana residents from future storms. Once finalized, the proposal will form the baseline for an extensive lobbying campaign by the state – *one likely to stretch on for years* – to wrest from Washington the billions needed to finance the work.¹⁹

All of this adds up to the conclusion that federal involvement, far from unambiguously alleviating uncertainty, might very well exacerbate it. Local residents come to see the whole world as the stage for their political drama, and their already murky situation becomes positively opaque. A butterfly flaps its wings in Baghdad, and a hurricane hits New Orleans; a plane flies into a building in New York City, and FEMA is rendered incapable of providing effective relief. Instead of only having to reconstitute their communities from scratch, victims of Katrina must also worry about anything that might preoccupy policy-makers, set dangerous precedents, or tug on the federal government's purse strings. In all of this, the great magnitude of the federal government's influence is not a helpful feature, but a damning one, for it makes the regime uncertainty generated by federal involvement that much harder to mitigate locally.

5 Conclusion

Frank Knight's concept of uncertainty should not be excised from the toolkit of economists simply because it does not fit easily into an *ex post* framework. It proves its utility in its ability to help make sense of the *process* of reconstruction and to interpret qualitative

¹⁹Mark Schleifstein, "State maps plan for coastal projects— Billions of dollars of levees, dikes urged," *The Times-Picayune*, November 9, 2006. Emphasis added.

interview data in a systematic way. It has been argued throughout this paper that there are important analytic considerations that can only be examined by stepping into a perspective *in medias res*, and that uncertainty certainly qualifies as one of them.

In addition, understanding what constitutes uncertainty is valuable in forming policies that do not exacerbate it. It is not the only factor weighing on the desirability of implementing particular policies, but this aspect of their effects should be carefully considered. A move away from discretionary, *ex-post* policy formulation and towards *ex-ante*, predefined government responses to disasters would go a long way towards mitigating the generation of uncertainty by the political process.²⁰ This measure, however, would only be effective to the extent to which the federal government could credibly commit to not meddling further after a disaster hit; an unlikely possibility, given that agents on the ground treat policy determination as endogenous in their mental models. Insofar as uncertainty is concerned, a drastic reduction of federal involvement in disaster recovery seems like the only plausible option, either through decentralization or simple spending cuts.²¹ The desire to aid may be great, but it is imperative that policy not do more harm than good. The mitigation of uncertainty is one goal in which positive policy would seem to have little or no role, and should be carefully weighed.

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²⁰Kunreuther and Pauly (2006) reach a similar conclusion.

²¹See Leeson and Sobel, 2006.

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