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# MERCATUS ON POLICY

A POLICY MAKER'S GUIDE  
TO EFFECTIVE  
DISASTER PREPAREDNESS  
AND RESPONSE

MERCATUS CENTER  
GEORGE MASON UNIVERSITY

In the almost three years since Hurricane Katrina devastated the Gulf Coast region of the United States, scholars, policy makers, and concerned citizens have been working to understand what exactly went wrong in the response to the event and how better to prepare for future natural disasters. Post-Katrina New Orleans presents a unique opportunity to study how and how not to undertake the rebuilding of a major population center after such a catastrophe. Proper study of this subject, if conducted objectively and rigorously, will not only save other communities countless dollars but indeed lives.

## THE KATRINA PROJECT

SINCE LATE 2005, the Mercatus Center at George Mason University has been conducting its own dedicated inquiry: a five-year project to better understand how different social, legal, political, and economic institutions have affected response to and rebuilding after Hurricane Katrina. The purpose of this inquiry is to examine the role in the rebuilding process played by the public, for-profit, and non-profit sectors and to determine where—and why—each sector is having its greatest successes. Further, we seek to examine how these sectors interact, where they build synergies, and where they work at cross purposes.

The project, which is based on traditional social scientific analysis as well as over 350 hours of interviews with Gulf Coast residents, combines the ongoing research of 18 scholars and uses an interdisciplinary approach to better understand what disaster response and recovery policies are most effective. Combining approaches culled from economics, political science, sociology, and other fields, the Mercatus Center's Katrina Project is able to develop a holistic examination of how communities, organizations and governments have in the past—and should in the future—prepare and deal with society-altering catastrophes.

The five-year horizon of the research means that not only can the project's scholars collectively assemble a thorough picture of recovery efforts as it stands at any one time, but they are able to observe the dynamic process of recovery as it happens. Additionally, the Mercatus Center's extensive experience in understanding the role and contours of institutions means researchers are able to draw lessons that may be beneath the surface yet equally important to understanding effective disaster recovery in the future.

#### HOW TO PREPARE FOR DISASTERS

- Prepare your regulations
- Respect the role of the private sector
- Promote resilient insurance markets
- Devolve planning
- Be ready to connect

#### HOW TO RESPOND TO DISASTERS

- Avoid distorting private sector signals
- Give vouchers rather than in-kind assistance
- Avoid targeted incentives
- Achieve accountability through transparency
- Remove barriers to local solutions

#### WHAT WE HAVE LEARNED

OUR GOAL IS not merely scholarly. We want to communicate the knowledge generated to public officials, non-profit leaders, business people, and others who can help their communities better prepare for future disasters.

This issue of *Mercatus On Policy* briefly summarizes some of the project's key research findings and their implications for policy makers and public officials on the federal, state, and local levels.

#### HOW TO PREPARE FOR DISASTERS

- **Prepare your regulations:** Regulations that may make sense under normal circumstances can delay or discourage recovery efforts. Have an alternative set of non-severable regulations that recognize the need for flexibility, creativity, and innovation in the response and recovery process in place before a disaster hits. In the event of a major catastrophe, have these regulations launch automatically and last for a specified time.<sup>1</sup>

- **Respect the role of the private sector:** Give the private sector as much freedom as possible to provide resources for relief, and don't try to control or proscribe its actions. Often, the best thing public sector agencies can do is get out of the way of effective non- and for-profit sector relief efforts, leaving those efforts free to respond to changing local conditions and needs. Large retailers especially can mobilize large quantities of items and get them where they need to go in a remarkably short time. Preparedness plans should be reviewed to remove barriers to such actions.<sup>2</sup>
- **Promote resilient insurance markets:** Avoid state insurance pools, subsidized insurance schemes, and other policies that cause more people to live in harm's way than would under a competitive insurance system. While no one can control when and where a natural disaster will strike, people can choose where and how much to put at risk by their building decisions. Programs that reduce the cost of insurance, for instance, make it less costly to build in high-risk areas and incentivize greater losses as a result. Competitive insurance markets set prices such that potential residents, buyers, and builders know the full risk of certain areas and can plan accordingly.<sup>3</sup>
- **Devolve planning:** Planning authority and responsibility for preparedness should be devolved to as local a level as possible, even as far as individual neighborhood associations. Competition and openness are necessary conditions for institutions that foster economic growth, and an increasing number of services and planning responsibilities around the country are being taken up by private and sub-local neighborhood organizations. This can clearly include disaster preparedness. The competition that results will increase the ability to respond to disasters. The city government should restrict itself to establishing common rules for infrastructure (such as roads and highways) and allow neighborhood associations to address local planning needs.<sup>4</sup>
- **Be ready to connect:** Ensure emergency service providers (ESPs) and first responders have compatible communication systems. Many ESPs within a municipality, as well as responders from different geographic areas, cannot communicate with each other using their existing equipment and spectrum allocations. At the federal level, the FCC should open the public safety spectrum to competitive auction, require licensees to interconnect, and return revenues from the auction to first responders to pay for their subscription to the networks.<sup>5</sup>



## HOW TO RESPOND TO DISASTERS

- **Avoid distorting private sector signals:** Individuals have many decisions to make once a disaster has passed, most of which depend on cooperative “signals” they get from others. The decisions of those affected directly by a disaster are inexorably tied to the decisions of others—their neighbors, their customers, their employees, and the commercial and non-commercial organizations serving their communities. When governments over-promise and repeatedly change plans mid-stream (such as New Orleans’ Road Home program), they interfere with these signals and confuse residents trying to decide when and where to make investments. Government at each level should focus on creating a stable environment in which this signaling can occur by maintaining public safety and protecting property rights.<sup>6</sup>
- **Give vouchers rather than in-kind assistance:** One of the most pressing and immediate needs following a disaster is availability of housing, especially for displaced low-income households. Many traditional responses to this need involve publicly financed construction projects or one-size-fits-all solutions like the infamous FEMA trailers. Post-disaster housing policy should focus on providing housing vouchers (funds good for use on housing only) directly to those in need. This allows a maximum amount of flexibility and creates competition between private sector providers for recipients’ vouchers.<sup>7</sup>
- **Avoid targeted incentives:** It can be tempting to define a restricted set of desirable business activities and then try to encourage them through targeted tax and regulatory policy. But the best tax environment for investment, especially in a recovering area, is one that is broad and neutral, both geographically and conceptually. Conditioning tax and regulatory relief on specific locations, industries, and hiring decisions restricts would-be entrepreneurs from making the most effective use of their resources. A level playing field that does not favor some businesses over others enables the best chance of region-wide recovery and avoids the mistake of putting development officials in charge of deciding which businesses are likely to be “winners” in the post-disaster economy.<sup>8</sup>
- **Achieve accountability through transparency:** Ensure that spending on disaster relief and other related public funds are highly transparent and available to scrutiny by the public and government watchdogs. Fully transparent spending provides decision makers with an incentive to comply with the rules and minimizes corruption.<sup>9</sup> FEMA funds especially require vigilant public oversight because they are known to lead to corruption in recipient states. Set firm time limits on FEMA involvement in reconstruction to avoid retarding local economic regrowth.<sup>10</sup>
- **Remove barriers to local solutions:** A variety of local civic, religious, and social institutions that exist outside

the government are crucial in moving along the rebuilding effort. In some cases, churches may provide a local ethnic focal point for coordinating resettlement.<sup>11</sup> In other cases, existing non-profits may have the wherewithal to provide meaningful relief and reconstruction assistance but might be turned away for lack of proper government authorization. Ensure that those willing to help are included and encouraged in the post-disaster response and are not kept away because of bureaucratic ankle weights.

## ENDNOTES

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10. Russell Sobel and Peter Leeson, *The Impact of FEMA on U.S. Corruption: Implications for Policy*, Mercatus Policy Series, Policy Comment No. 8, (Arlington, VA: Mercatus Center at George Mason University, 2007).
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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.