



# MERCATUS POLICY SERIES

POLICY COMMENT No. 17

**MAKING HURRICANE RESPONSE  
MORE EFFECTIVE:  
Lessons from the Private Sector  
and the Coast Guard during Katrina**

STEVEN HORWITZ  
*Professor, St. Lawrence University*

WAL★MART

MARCH 2008

MERCATUS CENTER  
GEORGE MASON UNIVERSITY

---

### About Steven Horwitz, author

Steven Horwitz is a professor of economics at St. Lawrence University, where his areas of specialization and interest include Austrian economics, monetary theory and history, macroeconomics, and political economy.

Dr. Horwitz is author of *Monetary Evolution, Free Banking, and Economic Order* and the forthcoming *Microfoundations and Macroeconomics: An Austrian Perspective*.

He also co-edited, with Peter Boettke, a volume of *Advances in Austrian Economics*. He has written extensively on monetary theory and history, macroeconomics and the economics of capitalism and socialism. His work has been published in professional journals such as *History of Political Economy*, *Southern Economic Journal*, and *Critical Review*.

Dr. Horwitz received his PhD in economics from George Mason University and his AB in economics and philosophy from the University of Michigan.

Senior Editor: Frederic Sautet  
Managing Editor: Kyle McKenzie  
Assistant Editor: Heather Hambleton  
Publications Manager: Jennifer Zambone  
Design: Joanna Andreasson

Cover Photo: Creative Commons: Cubbie\_n\_Vegas. Inside Photos: Anthony Skriba

**MAKING HURRICANE RESPONSE MORE EFFECTIVE:  
Lessons from the Private Sector and the  
Coast Guard during Katrina**

STEVEN HORWITZ

**EXECUTIVE SUMMARY**

Many assume that the only viable option for emergency response and recovery from a natural disaster is one that is centrally directed. However, highlighted by the poor response from the federal government and the comparatively effective response from private retailers and the Coast Guard after Hurricane Katrina, this assumption seems to be faulty. Big-box retailers such as Wal-Mart were extraordinarily successful in providing help to damaged communities in the days, weeks, and months after the storm. This Policy Comment provides a framework for understanding why private retailers and the Coast Guard mounted an effective response in the Gulf Coast region. Using this framework provides four clear policy recommendations:

1. Give the private sector as much freedom as possible to provide resources for relief and recovery efforts and ensure that its role is officially recognized as part of disaster protocols.
2. Decentralize government relief to local governments and non-governmental organizations and provide that relief in the form of cash or broadly defined vouchers.
3. Move the Coast Guard and Federal Emergency Management Agency (FEMA) out of the Department of Homeland Security (DHS).
4. Reform "Good Samaritan" laws so that private-sector actors are clearly protected when they make good faith efforts to help.

If disaster situations are to be better handled in the future, it is important that institutions are in place so that actors have the appropriate knowledge to act and incentives to behave in ways that benefit others. The framework and recommendations provided in this paper help to provide a good understanding of the appropriate institutions.



# MAKING HURRICANE RESPONSE MORE EFFECTIVE: Lessons from the Private Sector and the Coast Guard during Katrina

## INTRODUCTION

MANY PEOPLE BELIEVE that the government, particularly the federal government, should finance and direct both the response to and recovery from natural disasters. Such centralized political solutions have, after all, been the standard practice in recent U.S. history. This belief often rests on the assumption that the private sector's profit motive would thwart the charitable impulses generally regarded as essential for effective relief. However, the private sector's involvement in the response to Hurricane Katrina along the Gulf Coast has provided strong reasons to be skeptical of this argument.

The dramatic failures of the Federal Emergency Management Agency (FEMA) during Hurricane Katrina have been well-publicized and thoroughly dissected by the political process.<sup>1</sup> Both critics and supporters of vigorous government responses to natural disasters have noted those failures and offered analyses of the reasons behind them.<sup>2</sup> These discussions and analyses have led to some fairly minor changes in FEMA's structure and operations for future crises.<sup>3</sup> Despite FEMA's massive failures, the debate to this point has been focused largely on improv-

ing the government's response to future disasters and catastrophes. Policy makers and the public alike continue to assume that government must be responsible for nearly all disaster recovery activities.

However, the reality of the response to Katrina demonstrates that the private sector is far more effective than the conventional wisdom suggests.<sup>4</sup> Media accounts during the relief and recovery process and reports from local residents and private sector actors make it clear that the private sector was extraordinarily successful in providing help to damaged communities across the Gulf, especially in New Orleans. While the major media and political actors rightly focused on the failures of FEMA, the major government agency responsible for disaster relief, the successes of the private sector<sup>5</sup> and of one particular government agency, the U.S. Coast Guard, have been much less publicized. Their effective responses deserve greater consideration as we seek to improve disaster relief and recovery policies. During the Katrina relief efforts, the more successful organizations were those that had the right incentives to respond well and could tap into the local information necessary to know what that response should be. The private sector had the right incentives

1. See U.S. Senate, *Hurricane Katrina: A Nation Still Unprepared* (Washington, DC: U.S. Government Printing Office, 2006) [http://hsgac.senate.gov/\\_files/Katrina/FullReport.pdf](http://hsgac.senate.gov/_files/Katrina/FullReport.pdf); U.S. House of Representatives, *A Failure of Initiative* (Washington, DC: U.S. Government Printing Office, 2006) <http://www.gpoaccess.gov/katrinareport/mainreport.pdf>.

2. Russell Sobel and Peter Leeson, *Flirting with Disaster: The Inherent Problems with FEMA*, Policy Analysis No. 573 (Washington, DC: Cato Institute, 2006); Raymond Burby, "Hurricane Katrina and the Paradoxes of Government Disaster Policy: Bringing About Wise Governmental Decisions for Hazardous Areas," *Annals of the American Academy of Political and Social Sciences* 604 (2006): 171-91.

3. Most of these are part of the Post-Katrina Emergency Management Reform Act, which was part of the 2007 Department of Homeland Security Appropriations Act.

4. At least one academic study has recognized this point. See the analysis of political failure and brief discussion of private sector successes in William F. Shughart II, "Katrinanomics: The Politics and Economics of Disaster Relief," *Public Choice* 127 (April 2006): 31-53.

5. For the purposes of this study, I will use "private sector" to refer both to profit-making firms and non-profits, such as the Red Cross.

and, along with the Coast Guard, was able to access the local knowledge necessary to provide the relief that was needed. FEMA lacked both of these advantages.

Post-Katrina, profit-seeking firms beat most of the government to the scene and provided more effectively the supplies needed for the immediate survival of a population cut off from life's most basic necessities. Though numerous private-sector firms played important roles in the relief operations, Wal-Mart stood out. The nearly unanimous agreement by local officials that Wal-Mart's response was crucial in preventing the crisis from being even worse than it was suggests that an analysis of that success is in order.

The other major success story of Katrina was that of the Coast Guard, which rescued more than 24,000 people in the two weeks following the storm. Why were big-box stores like Wal-Mart and one particular government agency able to respond so effectively when other organizations were not? In this Policy Comment, I argue that, contrary to the conventional wisdom, the incentives facing private-sector organizations actually lead them to outperform public agencies in many disaster relief tasks. Furthermore, where a government response is deemed necessary, agencies with more decentralized structures will perform better because they are able to tap into local knowledge and conditions.

Disaster researchers have argued that the most effective responses to disasters involve a combination of "discipline" and "agility."<sup>6</sup> Responders need the discipline of an organizational structure that keeps them focused on solving the problems at hand. At the same time, they also need to be agile in the face of the unexpected in order to respond promptly to the ever-changing conditions characteristic of most disaster recovery efforts. Private-sector firms operate in an institutional environment of profit and loss, which provides an external discipline that ensures they stay focused on their specific purposes. Additionally, decentralized and local organizations have the ability to know the communities they serve very well, thus making them agile in ways that more centralized organizations are not.

These organizational and institutional factors can help explain why simply reorganizing responsibility among government agencies or enhancing the expertise of leadership will not be enough to significantly improve the

performance of government disaster relief agencies. Because the problems government agencies face when trying to provide disaster relief are inherent in the agencies' structures, disaster-planning processes and official public policy should include a larger role for the private-sector and should limit government's role to being as unobtrusive as possible. Additionally, where government action remains appropriate, policy makers should aim to decentralize governmental responses.

This Policy Comment offers policy makers four specific recommendations for improving responses to natural disasters:

1. Give the private sector as much freedom as possible to provide resources for relief and recovery efforts and ensure that its role is officially recognized as part of disaster protocols.
2. Decentralize government relief to local governments and non-governmental organizations and provide that relief in the form of cash or broadly defined vouchers.
3. Move the Coast Guard and FEMA out of the Department of Homeland Security (DHS).
4. Reform "Good Samaritan" laws so that private-sector actors are clearly protected when they make good faith efforts to help.

Section 1 of this Policy Comment explores the successful responses to Hurricane Katrina by the private sector and the Coast Guard. Section 2 develops a framework for understanding those successes, focusing on the benefits offered by the institutional environment of the private sector and the agility of decentralized organizations. Finally, Section 3 addresses the more detailed recommendations for improving policy.



## The Private Sector and the Coast Guard During Hurricane Katrina

IN EXPLORING EXACTLY which relief efforts were most successful, it becomes clear that the private sector's efforts were generally much more effective than the government's. Wal-Mart arrived in the New Orleans area long before FEMA and had the supplies that the commu-

6. John Harrald, "Agility and Discipline: Critical Success Factors for Disaster Response," *Annals of the American Academy of Political and Social Sciences* 604 (2006): 256–72.

nity needed. Both President Aaron Broussard and Sheriff Harry Lee of Jefferson Parish in suburban New Orleans lauded Wal-Mart's work. In an appearance on *Meet the Press*, Broussard noted that Wal-Mart had delivered three trailers of water only to be turned back by FEMA and quoted Lee in saying, "if [the] American government would have responded like Wal-Mart has responded, we wouldn't be in this crisis."<sup>7</sup> Phillip Capitano, mayor of the New Orleans suburb of Kenner, reported, "the only lifeline in Kenner was the Wal-Mart stores. We didn't have looting on a mass scale because Wal-Mart showed up with food and water so our people could survive." Similar reports of Wal-Mart's prompt and effective involvement came from community leaders across the Gulf Coast.<sup>8</sup> Other private-sector firms, especially other so-called "big-box" stores such as Home Depot and Lowe's, also provided much-needed supplies, many of which were free, in the immediate aftermath of the storm. However, because Wal-Mart's response was the largest and most publicized, this Policy Comment will focus on Wal-Mart.<sup>9</sup>

Hurricane Katrina made landfall in southeast Louisiana and southwest Mississippi on August 29, 2005. Between August 29 and September 16, Wal-Mart shipped almost 2,500 truckloads of merchandise to the affected areas and had drivers and trucks in place to ship relief supplies to community members and organizations wishing to help.<sup>10</sup> Home Depot provided more than 800 truckloads worth of supplies to the hard-hit areas and also used buses to transport 1,000 employees from other areas into the region.<sup>11</sup> Wal-Mart also provided a large amount of free merchandise, including prescription drugs, to those in the worst-hit areas of the Gulf Coast. For example, several truckloads of free items went to evacuees in Houston at the Astrodome and the Brown Convention Center. Most importantly, Wal-Mart and Home Depot were able to get this assistance to the disaster areas almost imme-

diately after the storm had passed, in comparison to the days—in some cases weeks—that residents waited for government agencies to provide relief.

Private-sector planning for the storm began days ahead of landfall. On the Friday prior to the Monday landfall, Home Depot activated the "war room" at its Atlanta headquarters, negotiating with various vendors to get needed supplies staged to move into the hurricane zone.<sup>12</sup> Wal-Mart's response began slightly earlier. As part of its regular operations, the company maintains an emergency command center run by Jason Jackson, Wal-Mart's

"If [the] American government would have responded like Wal-Mart has responded, we wouldn't be in this crisis."

*Sheriff Harry Lee, Jefferson Parish*

Director of Business Continuity. The center is normally staffed by six to ten employees who respond to incidents at individual stores. When large-scale events threaten "the staff is joined by senior representatives from each of the company's functional areas." When an even more widespread catastrophe like a major hurricane is imminent, the office might include as many as 60 employees. Jackson notes that the easily expandable structure "drives the ability to be agile and flexible."<sup>13</sup> Wal-Mart also uses its own hurricane tracking software and contracts with private forecasters for the latest information on storms. By Wednesday, August 24, the command center had gone into planning mode in anticipation of Katrina's landfall. Two days later, when Katrina struck Florida, the complement of personnel in the command center was over 50.<sup>14</sup>

7. Aaron Broussard, interview by Tim Russert, *Meet the Press*, MSNBC, September 4, 2005, transcript available online at <http://www.msnbc.com/id/9179790>.

8. Devin Leonard, "The Only Lifeline was the Wal-Mart," *Fortune*, October 3, 2005, 7.

9. An extensive and detailed summary of Wal-Mart's involvement in the Katrina relief effort can be found in Susan Rosegrant, *Wal-Mart's Response to Hurricane Katrina: Striving for a Public-Private Partnership*, The Kennedy School of Government Case Program C16-07-1876.0 (Cambridge, MA: Kennedy School of Government Case Studies in Public Policy & Management, 2007) <https://articleworks.cadmus.com/doc/800164>.

10. Wal-Mart Facts.com, "Wal-Mart's Hurricane Relief Efforts," [http://www.walmartfacts.com/FactSheets/8302006\\_Katrina\\_Relief.pdf](http://www.walmartfacts.com/FactSheets/8302006_Katrina_Relief.pdf).

11. Patti Bond, "Home Depot: As Experience Grows, Big Orange Refines Script for Storm Response," *Atlanta Journal-Constitution*, September 4, 2005, 1C.

12. Andrew Ward, "Home Depot Prepares for Katrina," *Financial Times*, August 29, 2005, 18.

13. Ben Worthen, "How Wal-Mart Beat the Feds to New Orleans," *CIO Magazine*, November 1, 2005, [http://www.cio.com/article/13532/How\\_Wal\\_Mart\\_Beat\\_Feds\\_to\\_New\\_Orleans](http://www.cio.com/article/13532/How_Wal_Mart_Beat_Feds_to_New_Orleans). See also Kennedy School of Government Case Program C16-07-1876.0.

14. Ann Zimmerman and Valerie Bauerlein, "At Wal-Mart, Emergency Plan Has Big Payoff," *Wall Street Journal*, September 12, 2005, B1.

Having responded to smaller-scale hurricane damage in the past, and with a substantial number of stores along the Gulf Coast and in Florida, Wal-Mart has a protocol for dealing with such events. One key part of the process is passing information down from the senior management level to regional, district, and store managers. The idea, Jackson reports, is to get a response that is “uniform across the company.”<sup>15</sup> Once the emergency command center saw that the storm had crossed over Florida and into the Gulf, it applied those protocols to the impending landfall. Emergency supplies—such as generators, dry ice, and bottled water—were moved from warehouses “to designated staging areas so that company stores would be able to open quickly.”<sup>16</sup> Those staging areas were set up just outside the likely worst-hit areas to facilitate a quick response with minimal danger of damage. A distribution center in Brookhaven, Mississippi had 45 trucks in place before Katrina’s landfall.<sup>17</sup>

A large number of people owe their lives to the thousands of Coast Guard rescues and the resources that private-sector firms such as Wal-Mart made available.

As the storm passed, district and store managers relayed information about store conditions back up the chain of command to the emergency operations center. As the storm knocked out the company’s computerized inventory-management system and much of the local phone infrastructure, Wal-Mart relied mostly on satellite cell phones that its own loss prevention teams brought in as early as Tuesday. Those teams in New Orleans were supplemented by the regional vice-president, Ronny Hayes, and Deb Hoover, the regional manager for Wal-Mart’s One-Hour Photo group.<sup>18</sup> Having all of its key players in the operations room allowed Wal-Mart to field the information coming from Hayes, Hoover, and others on the scene and quickly make adjustments to the supplies it had staged. The presence of two senior managers in New Orleans also helped to coordinate the relief process. For example, when it became clear that a number

of stores had suffered damage and that areas were facing severe flooding, Jackson had his replenishment staff order more mops, bleach, and similar products into the affected areas. Trucks were rolling into New Orleans on the day after the storm.

Aside from numerous reports of Wal-Mart providing supplies to hard-hit areas several days ahead of FEMA, additional evidence of the effectiveness of the private sector’s response was the speed at which it re-opened stores closed by the storm. A closer look at Wal-Mart shows that, at the peak of the storm, 126 stores and two distribution centers were closed. Of these closed stores, “more than half ended up losing power, some were flooded, and 89 . . . reported damage.”<sup>19</sup> By 10 days after landfall, a mere 15 stores remained closed, those that had suffered flooding or severe structural damage.

Another element of Wal-Mart’s successful response was the great degree of discretion that the company gave to district and store managers. Store managers have sufficient authority to make decisions based on local information and immediate needs. As the storm approached, CEO Lee Scott provided a guiding edict to his senior staff and told them to pass it down to regional, district, and store managers: “A lot of you are going to have to make decisions above your level. Make the best decision that you can with the information that’s available to you at the time, and, above all, do the right thing.”<sup>20</sup> In several cases, store managers allowed either emergency personnel or local residents to take store supplies as needed. They did not feel the need to get pre-approval from supervisors to do so. A Kenner, Louisiana employee used a forklift to knock open a warehouse door to get water for a local retirement home. In Marrero, Louisiana employees allowed local police officers to use the store as a headquarters and a sleeping place as many had lost their homes.

In Waveland, Mississippi assistant manager Jessica Lewis, who was unable to reach her superiors to get permission, decided to run a bulldozer through her store to collect basics that were not water-damaged, which she then piled in the parking lot and gave away to residents. She also broke into the store’s locked pharmacy to supply critical drugs to a local hospital. Jackson said of both of her actions, “What Jessica did is a good example of

15. Kennedy School of Government Case Program C16-07-1876.0, 3.

16. Zimmerman and Bauerlein, B1.

17. Michael Barbaro and Justin Gillis, “Wal-Mart at Forefront of Hurricane Relief,” *Washington Post*, September 6, 2005, D01.

18. Kennedy School of Government Case Program C16-07-1876.0, 7.

19. Zimmerman and Bauerlein, B1.

20. Kennedy School of Government Case Program C16-07-1876.0, 5.

## The Importance of Local Knowledge

Economists have increasingly recognized the importance of local knowledge over the last few decades. In his 1945 essay, F. A. Hayek was the first economist to emphasize that the “knowledge of time and place” is central to understanding how market economies coordinate behavior.<sup>1</sup> In that essay, he emphasizes that the knowledge that matters for making good economic and political decisions is the bits and pieces of knowledge possessed by individual people “on the spot,” not large-scale theoretical or statistical information. The people closest to the situation at hand make the best decisions with the information they have from that local context. Distant managers or government officials do not possess the same depth of knowledge or familiarity with nuances.

Hayek’s insight has been developed and applied in a variety of ways. One extension, for example, is that a good deal of the knowledge relevant to human action is tacit, or inarticulate, and thus cannot easily be put into words or numbers, if at all. When we make choices in the market, we make this tacit knowledge available to others through the effects that our choices have on prices and profits. Often, we cannot describe explicitly why we make the choices we do, both as consumers and producers, but as long as the market registers our choices, it transmits our knowledge to others.

Producers often develop tacit knowledge from operating in particular market contexts for long periods of time. By getting to know their customers and the local area, they hone their abilities to judge situations and know what others want. Again, they may not be able to articulate what it is they know, but it is knowledge nonetheless. Developing this tacit and contextual knowledge requires detailed and repeated contact with those who are being served.

Organizations can have their own kinds of tacit and local knowledge by developing routines and processes that are crystallizations of the learning they have done in their markets. Such routines, which emerge from the highly competitive learning process of the market, are far more likely to reflect the actual needs of the public than the more sporadic local interaction characteristic of the political process.

---

1. F. A. Hayek, “The Use of Knowledge in Society,” reprinted in *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

autonomy.”<sup>21</sup> Given the variety of areas in which Wal-Mart operates, it makes sense to allow local managers significant discretion in their day-to-day operations. That sense of empowerment is particularly useful when unusual local conditions require agility and improvisation.

The value of this decentralization of decision-making authority was also clear in the effective response of the U.S. Coast Guard. According to its own reports, the Coast

Guard mobilized a total of almost 5,300 personnel, 62 aircraft, 30 cutters, and 111 small boats, which included a third of its entire air fleet, to perform rescue operations in the immediate aftermath. By September 11, 2005, it “had rescued more than 24,000 people and assisted with the joint-agency evacuation of an additional 9,400 patients and medical personnel from hospitals in the Gulf coast region.”<sup>22</sup> The Coast Guard was also part of multi-agency teams dealing with environmental recovery and ensuring access to key shipping ports and waterways. Coast Guard search-and-rescue operations commenced immediately after the weather became calm enough and involved air crews that were “pre-staged” in several adjoining states. This included personnel and equipment from the area the storm was to affect that were moved into a “ring” around the Gulf.

Local residents and media reports lauded the Coast Guard’s role in the immediate aftermath of the storm. Sheriff Jack Stephens of St. Bernard Parish, just east of New Orleans, reported, “The Coast Guard was the only federal agency to provide any significant assistance for a full week after the storm.”<sup>23</sup> One of the key roles the Coast Guard played was partnering with local fishermen who had both boats and knowledge of the area. The decentralized structure of the Coast Guard gave rescuers who were “on the spot” the freedom to act on their local information and engage in these sorts of partnerships. A large number of people owe their lives to the thousands of Coast Guard rescues and the resources that private-sector firms such as Wal-Mart made available.

## 2 What Explains the Success of the Private Sector and the Coast Guard?

TO UNDERSTAND THE success of firms like Wal-Mart and the strong performance of the Coast Guard compared with that of other government agencies, we need to explore the factors that promote organizational responsiveness to the needs of the people such organizations serve. In order for organizations to be agile and disciplined, they require both the right knowledge and the right incentives. Whether organizations are able to acquire such knowledge and have the appropriate

21. *Ibid.*, 9-10.

22. U.S. Coast Guard, “Coast Guard Response to Hurricane Katrina,” [http://www.uscg.mil/hq/g-cp/comrel/factfile/Factcards/Hurricane\\_Katrina.htm](http://www.uscg.mil/hq/g-cp/comrel/factfile/Factcards/Hurricane_Katrina.htm).

23. Amanda Ripley, “How the Coast Guard Gets it Right,” *Time*, October 23, 2005. See also Stephen Barr, “Coast Guard’s Response to Katrina a Silver Lining in the Storm,” *Washington Post*, September 6, 2005, B02.

incentives depends on the institutional environments in which they operate and the way in which the organizations are structured. In general, the environment of market competition is superior to that of the political process in providing both the knowledge necessary to respond to people's needs and the profit incentive to act on that knowledge in ways that create value. Within the political process, agencies face different incentives, as they do not operate by profit and loss. Instead, government agencies are more often concerned with pleasing other political actors and finding ways to expand their budgets and power. This often makes them less sensitive to the direct needs of the people who rely on them to get specific tasks accomplished.<sup>24</sup>

In addition, the absence of a competitive market for their product means that, in general, government agencies face knowledge problems in determining what their output should be and how best to produce it. However, government agencies with a more decentralized structure that puts them in more direct contact with the people they serve may be able to overcome these knowledge problems. Larger, more centralized government agencies will lack the incentives of firms in competitive markets as well as the knowledge provided by true market prices, but more decentralized ones may do better along the latter dimension.

I can illustrate this perspective with respect to disaster relief organizations using the schema in Table 1.

**TABLE 1:  
CATEGORIZING DISASTER RELIEF ORGANIZATIONS**

	<b>Centralized (Decisions Made With Insufficient Local Knowledge)</b>	<b>Decentralized (Agile, Flexible, Access To Local Knowledge)</b>
<b>Public (incentives of political process for power and larger budgets)</b>	FEMA	Coast Guard
<b>Private (disciplined by profits or civil society competi- tion for funds)</b>		Private sector (e.g., Wal-Mart, Home Depot)

As one moves clockwise from the top left quadrant, one sees improvements in performance as the incentives to serve people strengthen and greater decentralization enables better access to the knowledge needed to turn those incentives into action. In the case of Katrina, this helps explain FEMA's abysmal performance: its more centralized structure and its operation outside the discipline of profit and loss denied it access to local knowledge and removed beneficial incentives. Wal-Mart's effectiveness results from market competition (which provides the right kinds of incentives) and an organizational structure that gives sufficient discretion to local actors who have the requisite knowledge. Non-profit organizations often perform well because of the incentive created by their need to compete for voluntary donations. If they have a sufficiently decentralized organizational structure, they can approach the high level of performance of the private sector. Between FEMA and Wal-Mart is the Coast Guard, an organization that is public, but decentralized. The Coast Guard performed better than FEMA, but perhaps not as strongly as private-sector firms like Wal-Mart.

In analyzing the comparative performance of two government agencies such as the Coast Guard and FEMA, one must consider the missions of each, as well as the ability to define benchmark goals for success. The Coast Guard's mission is more precise than FEMA's, which makes it somewhat easier for the Coast Guard to focus resources and get the job done. Even so, this distinction alone cannot account for the depth and breadth of FEMA's failures. Similarly, without information provided by profit and loss, one has no clear and consistent way to measure the success of government agencies with different goals. For example, could, or should, the Coast Guard have saved more lives than it did? At some level, one simply cannot know when one is dealing with government agencies. What one can do is judge by the results that one sees and the perceptions of those affected by the agency's actions, both of which suggest a much stronger performance by the Coast Guard than FEMA, even given the caveats discussed.

As policy makers look to reform disaster relief policy, it is important that they not focus on issues such as the quality of leadership to such an extent that they ignore these questions of how institutional environment and organizational structure affect performance. The fact that Wal-Mart and the other big-box stores replicated their

24. On the market's superiority at providing both the knowledge and incentives for efficient resource use and greater value creation, see the essays in F. A. Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

excellent Katrina performance during the flooding in the Pacific Northwest in December of 2007 is evidence for the structural nature of their advantages.<sup>25</sup> Below, I look at the differing incentives facing public and private organizations; then I turn to the ways in which decentralization creates better access to relevant knowledge.

### **2.A Profits, Politics, and Long-Term Planning**

ONE MAJOR ADVANTAGE that private-sector firms and organizations have in providing effective disaster relief is that their survival is based on pleasing their customers or donors. Wal-Mart and Home Depot have strong incentives to get relief resources to disaster-stricken areas and to re-open their stores as quickly as possible, as doing both are ways of ensuring their continued profitability. Even providing donated goods to the stricken areas, as both firms did, has long-term financial incentives; the goodwill this gesture creates will likely provide future returns in the form of customer loyalty.

What is crucial is that these incentives—self-interest and public benefit—work hand-in-hand: a private firm’s concern with its own reputation and profitability leads it to help rebuild the community. Carl Liebert, a vice president with Home Depot, points out that it does not necessarily profit directly from hurricanes, as any increase in sales is counteracted by the costs it incurs in moving personnel and inventory to the storm areas, as well as the cost of the goods it donates. However, the company does profit in the long run from increased customer loyalty: “If we can be there when a customer needs us most, we can win that customer for life.”<sup>26</sup> Jason Jackson observes that even though Wal-Mart may lose money short-term by providing disaster relief, it “will have a community to go back to in the end.”<sup>27</sup> Long-term interests also work against the possibility of so-called “price gouging.” As another Home Depot executive put it, “I can’t think of a quicker way to lose customers than price gouging.”<sup>28</sup> Since 2004, Wal-Mart has had a corporate policy of instituting region-wide price freezes when hurricanes approach so as to avoid any accusations of price gouging. In disaster situations, the ability of private-sector firms to think of the long-term creates a powerful incentive to do the right thing.

By contrast, the self-interest of public agencies is not as harmonized with the interests of the citizenry. First, public

### **Institutional Incentives and Socially Beneficial Self-Interested Actions**

Often, people judge the desirability of a certain action or policy proposal by the intentions of those behind it. For example, we create agencies like FEMA with the intention that they will “manage” emergencies. When such agencies fail to perform as expected, our first instinct is to assume that they had incompetent managers and/or insufficient resources. However, it might be the case that the incentives faced within the agencies’ institutional frameworks were such that even with the best of intentions, incredible managers, and abundant resources, the agencies would be unable to get the job done.

Much recent study in the field of public choice economics, especially the work of James Buchanan and his colleagues, has focused on the empirical question of whether or not political actors can do what we think they *ought* to do.<sup>1</sup> This approach emphasizes that, regardless of the set of institutions under which they operate, we should assume that human beings are broadly self-interested and possess incomplete knowledge. Policies and institutions should be created with structures that assume not that humans are angels but that we seek our own advantage. The most effective social institutions are those structured such that they minimize the harm from self-interested behavior.

Policies and institutions that ignore the question of what incentives they create for self-interested actors are likely to fail. This is a frequent problem within the political process where agencies are given broad powers to act yet managers find it difficult to acquire the knowledge necessary to do so effectively. Political actors then will tend to please their various constituencies, such as elected officials, interest groups who have supported them, or their bosses higher in the civil service, in ways that advance their own power and prestige rather than their organization’s mission. The failures of government agencies during Katrina bear out this theory.

By contrast, good institutions are ones in which actors have the knowledge necessary to act and the incentives to behave in ways that serve the needs of others. As economists since Adam Smith have understood, good institutions channel our self-interest to the benefit of others and minimize the harm we can do in the process. The effectiveness of the private sector in Katrina shows how market institutions provide precisely the incentives that harmonize self-interest and public benefit.

1. See, for example, James M. Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1962).

agencies do not have the profit and loss incentive to engage in actions that add value. Private-sector firms profit (or see donations rise) when they provide people the things they want. The feedback process facing government agencies is far more roundabout, involving citizens recognizing the good work done and voting for officials who promise to

25. Laura Gunderson, “Retailers to the Rescue,” *The Oregonian*, December 9, 2007, <http://www.oregonlive.com/oregonian/stories/index.ssf?base/business/1197095130228920.xml&coll=7>.

26. Ward, 18.

27. Kennedy School of Government Case Program C16-07-1876.0, 5.

28. Terri Langford, “Disaster Plan Teams State and Retailers,” *Houston Chronicle*, July 15, 2007, <http://www.chron.com/disp/story.mpl/hurricane/4967735.html>.



continue to support the agency in question. Even then, much can happen between the promise and the allocation of funds. In addition, it is not only those who directly interact with the agency who get to cast a vote; many voters may know nothing about the good or bad work the agency has done. In general, the feedback mechanism for government agencies is much weaker, slower, and more indirect than that for private firms.

Moreover, public agencies find it much more difficult to adopt the longer-term perspective that private organizations can. These problems are not matters of myopic leadership, but are instead endemic in the institutional structure of politics, as the planning horizon of the political process is often as short as the two-year cycle of House elections and certainly no longer than the four-year cycle of the presidency. Public officials cannot act as if their organization will be an “ongoing concern” in the same way those in the private sector can. Public officials are always under the threat of new leadership, new priorities, reorganization, reassignment, or outright abolition, which makes it difficult for them to engage in long-term planning.

This shorter time horizon also explains why organizations like FEMA have less powerful incentives to promote disaster mitigation and end up just attempting to clean up

afterward. Disaster researcher Dennis Mileti notes that “the costs of mitigation are immediate while the benefits are uncertain, may not occur during the tenure of the elected officials, and are not visible (like roads or a new library).”<sup>29</sup> In general, political leaders will be biased in favor of projects that produce immediate, visible, and concentrated benefits and whose costs are longer-term, more subtle, and more dispersed. This enables leaders to reap the political benefits of the project while passing the cost on to others and spreading it out in ways that make it in no one’s interest to object to the project. Most disaster mitigation activities have just the opposite characteristics: their benefits are long-term, subtle, and dispersed, making them work against the incentives facing elected officials. The private sector is able to capture the longer-term benefits of effective “mitigation” through preparedness, as they lose when their stores are destroyed or closed for longer than necessary but can profit from readiness that gets resources moved quickly. That is the reason firms like Wal-Mart and Home Depot have invested so much in disaster preparedness and are able to respond not just to their own needs but also to the community’s as quickly as they did after Katrina.

## **2.B Risk and Agility**

The organizations most successful in responding to Katrina were those willing and able to take risks and be

29. Dennis S. Mileti, *Disasters by Design* (Washington, DC: Joseph Henry Press, 1999), 160.



agile in the face of uncertain conditions. Reasonable risk-taking, like other positive responses to disasters, is likely to be more common in institutional contexts where incentives reward such behavior. Private-sector organizations are thus more likely to perform well, which was evident in the response to Katrina.

Disaster researchers have accused FEMA and other government relief agencies of being overly conservative and “rule-bound” in the face of a disaster that required not just discipline, but agility. Russell Sobel and Peter Leeson argue that one reason government agencies are unwilling to take risks is that they have an incentive to avoid errors of *commission* and therefore are more likely to make errors of *omission*.<sup>30</sup> Errors of commission refer to actions taken that end up being mistakes, while errors of omission occur when actions are not taken that should have been. For example, if the police are overly aggressive in pursuing a suspect and raid the house of an innocent person, they are making an

error of commission. If they simply allow potential suspects to go free by not pursuing them, they are making an error of omission. The claim is that government agencies are likely to take more cautious and conservative strategies than less cautious ones, even if the net benefit of the less cautious one is greater.

The reason for the public sector’s greater willingness to tolerate errors of omission is that overt, visible errors tend to be punished more strongly than less visible ones. To take Sobel and Leeson’s example, if FEMA sends personnel in early and exposes them to the dangers of the storm, any negative consequences will be highly visible and will expose FEMA to more negative feedback, even if such a strategy is likely to save more lives. FEMA is better off playing it safe and accepting the likely lesser blame for simply waiting. As Sobel and Leeson put it, “Victims lost before FEMA enters because it delays action are less obviously linked to FEMA’s lack of action.”<sup>31</sup>

Alternately, suppose FEMA had moved stocks of food into place very early, perhaps even before the storm, only to see them spoil or go unused if the storm missed the area

or as a result of FEMA’s incompetence. The visible waste would be harder to explain than the less visible consequences of waiting to react. The incentives facing government agencies are such that errors of omission make it easier for them to argue that they did not have sufficient resources to mobilize to action in the face of a crisis or that “external factors” prevented them from doing the job well. In contrast, errors of commission are more obviously failures of execution rather than a lack of resources or external complications. FEMA therefore not only has much weaker incentives to get its tasks right, but actually has some incentive to avoid being proactive in novel situations. This was very clear in Katrina as Wal-Mart executives reported that FEMA and DHS rejected or ignored numerous overtures to find ways to cooperate and were overly bound to tedious accounting practices that made purchases of supplies from Wal-Mart needlessly cumbersome.<sup>32</sup>

The reluctance of public sector agencies to have large stocks of relief goods sitting on hand for distribution during a disaster is a good example of avoiding a problematic error of commission, as idle workers or supplies that are spoiled, outdated, or just plain sitting there would be much more visible than the error of omission of not acquiring and distributing resources in a timely fashion. For private-sector firms, their daily operations in the market lead them to have precisely the kinds of resources needed for disaster relief, and thus they have the flexibility to respond to either a disaster situation or an ordinary day of sales.

Another example of public agencies fearing errors of commission was FEMA preventing a number of volunteer doctors from working on injured people because the medical personnel were not officially registered with FEMA and the agency feared legal liability.<sup>33</sup> FEMA’s position was complicated by medical personnel from other states being occasionally uncertain about whether they should offer help because they did not know whether they were covered by Louisiana and Mississippi’s Good Samaritan laws. Such laws generally protect volunteers who offer good-faith medical assistance in a crisis. However, the laws differ from state to state and are generally designed not for large-scale situations like natural disasters, but rather for isolated incidents, such as car accidents. These

30. Sobel and Leeson, 6-7.

31. *Ibid.*, 7.

32. Kennedy School of Government Case Program C16-07-1876.0, 15–16.

33. *Katrinacoverage.com*, “USCG, FEMA Ordered Doctor to Stop Saving Victim’s Life,” September 17, 2005, <http://katrinacoverage.com/2005/09/17/uscg-fema-ordered-doctor-to-stop-saving-victims-life.html>.

laws also generally do not protect providers who are paid for their work. Because the legal institutions were insufficiently clear about the actors' potential liability in this case, both public and private actors feared errors of commission.<sup>34</sup>

Unlike the public sector, private-sector firms, when operating under clear legal rules, are no more likely to avoid the risk of errors of commission than they are errors of omission. Both types of errors result in losses for the firm—either absolute losses in the case of errors of commission or lost profit opportunities in the case of errors of omission. What this suggests is that private-sector firms are more likely to be proactive and take reasonable risks in dealing with a disaster. Changes in management strategy or organizational culture within FEMA or other government agencies are unlikely to help this structural problem in any significant way.

### **2.C Decentralization and Organizational Culture**

FROM THE PERSPECTIVE of generating the incentive structures that promote good disaster preparedness and relief, private solutions outperform public ones. However, having the right incentives is only half the story. Organizations must have the knowledge needed to respond correctly. Here is where the ability to get access to localized knowledge through a decentralized organizational structure matters.

Operating in the marketplace demands that firms selling physical goods or personal services locate where the demand for their outputs are. In Wal-Mart's case, this means opening stores where the population will support a store and having those stores fully stocked for that area's demands. Its stores generally track the population distribution of the United States.<sup>35</sup> As a result of this decentralization of resources inherent in the market, the national big-box firms generally have supplies and human capital near where disasters occur.

Private-sector firms often work hard to create the conditions for employees to exercise discretion within the firm,

sometimes called "intrapreneurship." Corporate leaders recognize that in complex organizations, those at the top cannot always know everything that is necessary to direct operations. Their challenge is to find ways to make use of the knowledge of "shop-floor" employees through the very structure of the organization so that knowledge need not be communicated in explicit terms to managers but can be shared through the actions employees take.<sup>36</sup>

One way that firms help ensure that employees use their local knowledge effectively is by creating a consistent and powerful corporate culture. For example, Wal-Mart devotes an entire section of its Web site to issues of corporate culture, including everything from its "Three Basic Beliefs" to Sam Walton's "Ten Rules for Building Business" to the "Wal-Mart Cheer."<sup>37</sup> Wal-Mart's "Saturday Morning Meetings," which take place at corporate headquarters in Bentonville, Arkansas, provide a forum for explaining and debating core issues facing the firm as well as celebrating the successes of employees. All of these elements of corporate culture are designed to instill a corporate philosophy in every employee. The philosophy provides a common vision and a set of rules to be followed, helping to ensure that when employees far from the top are given discretion, they are more likely to use it wisely. Such decentralization of responsibility can work when the corporate culture is strong and shared. Even here, however, the importance of the "rules of the game" cannot be ignored: both private firms and public agencies with strong organizational cultures will perform notably better when they operate in an environment that provides the incentives, independence, and information to put that culture to good use.

As we have seen, during Wal-Mart's response to Katrina, on-scene associates and managers were allowed discretion to deal with problems as they saw fit, and improvisation was fairly common as store and district managers faced unexpected situations and had to respond creatively. These improvisational responses were the result of the long-term organizational learning that develops in the context of market competition. Individual store manag-

34. The Texas Medical Association notes the lack of coverage for those who are paid. Erin Prather, "Volunteers Protected," *Texas Medicine* 102, No. 12 (2006), <http://www.texmed.org/Template.aspx?id=5555>. According to Gene Matthews and Milissa Markiewicz at the North Carolina Institute for Public Health, "Most state Good Samaritan laws leave significant gaps of liability exposure for both business and non-profit entities that assist in preparing for and responding to an emergency posed by a natural disaster, emerging infection, or terrorist event. This gap can lead to hesitation or lack of coordination on the part of business and non-profit entities providing help during an emergency situation," Gene Matthews and Milissa Markiewicz, "Good Samaritan Liability Preparedness Initiative," *Public Health Preparedness* (July 2007), <http://www.astho.org/newsletter/newsletters/9/display.php?u=Jmk9OSZwPTMyNiZzPTI1NDE%3D>.

35. See Michael J. Hicks, *The Local Economic Impact of Wal-Mart* (Youngstown, NY: Cambria Press, 2007), 46–53.

36. See Frederic Sautet, *An Entrepreneurial Theory of the Firm* (New York: Routledge, 2000).

37. Wal-Mart Stores.com, "Wal-Mart Culture," <http://www.walmartstores.com/GlobalWMStoresWeb/navigate.do?catg=251>.

ers have developed local and often intuitive knowledge of their own stores and communities that is integral to effective crisis response. It is by virtue of their being located in those communities, constantly facing market pressures to deliver what the community wants, that they are able to know what to do in a crisis presenting unforeseeable challenges.

Similarly, the Coast Guard instills in its members a powerful organizational culture and gives them much latitude for independent decision making. The core of this culture can be found in *America's Maritime Guardian: U.S. Coast Guard Publication 1*.<sup>38</sup> Published in 2002, the Coast Guard labeled it "Publication 1" in order to emphasize its role as the foundational document that "synthesizes" what the Coast Guard is, what it does, and how it does things. This document lays out organizational culture by offering a mission, a history, and an entire chapter devoted to "principles of Coast Guard operations." Two of those principles were of specific importance to their work during the Katrina disaster. The first is "the principle of on-scene initiative." As the authors describe it:

[T]he concept of allowing the person on scene to take the initiative—guided by a firm understanding of the desired tactical objectives and national interest at stake—remains central to the Coast Guard's view of its command relationships.<sup>39</sup>

They further develop this principle by recognizing that to take such initiative requires trust from above and a "unity of effort."

In granting on-scene initiative, Coast Guard leadership allows subordinates to alter the particular plan for their specific operation based on their local knowledge, but this must be done without violating the overarching and generally unchanged "commander's intent." The Coast Guard sees communication, especially informal discussions among captains and commanders, as central to preparing individual crews to act independently. This communication enables them to grasp the commanders' intent with a minimum of formal orders. The sort of decentralized teamwork that the Coast Guard expects "works through the common understanding of how individual incidents

or situations are normally handled."<sup>40</sup> This organizational culture and empowerment of local actors were key aspects of their effective response after Katrina, which parallels Wal-Mart's in many interesting ways.

This organizational culture and empowerment of local actors were key aspects of their [the Coast Guard's] effective response after Katrina.

Media reports also emphasized these points. The then-Vice Admiral of the Coast Guard (who was put in charge of the federal response to Katrina after FEMA's multiple failures) pointed to that autonomy as a reason it was able to move personnel and equipment into place so much faster than other agencies were. The importance of decentralization of authority was echoed by a former Coast Guard Commandant who told *Time*, "We give extraordinary life-and-death responsibilities to 2nd class petty officers."<sup>41</sup> Even a Coast Guard reservist with only two years of experience has higher-ranking officers reporting to her if she is piloting a boat.

The flatter organizational structure and the nature of the daily tasks of the Coast Guard suggest that it can access local knowledge more effectively than other related government agencies. The Coast Guard is organized by geographic region, with Atlantic and Pacific divisions. Each division is composed of districts, which are composed of units, which in turn consist of sector offices in specific coastal cities. From the Coast Guard Commandant down to the sector office (e.g., a field office in Mobile, Alabama) are four organizational levels. In the Navy, by contrast, there are five steps from the Secretary of the Navy just to the Director of Navy Staff, who is still located in Washington.<sup>42</sup> In addition, the average time at a station for a member of the Coast Guard is thirty-five to thirty-six months, which gives him or her time to get to know

38. U.S. Coast Guard, *America's Maritime Guardian: U.S. Coast Guard Publication 1* (2002), [http://www.uscg.mil/top/about/doc/uscg\\_pub1\\_complete.pdf](http://www.uscg.mil/top/about/doc/uscg_pub1_complete.pdf).

39. *Ibid.*, 52.

40. *Ibid.*, 53.

41. Ripley, 3.

42. See the organizational charts at <http://www.uscg.mil/top/about/organization.asp> and <http://www.navy.mil/navydata/organization/org-cno.asp>.

the local community.<sup>43</sup> There is no way to know with certainty the nature of an organizational culture, but based on the Coast Guard's own description of its work and its organizational structure, it is reasonable to conclude that organizational factors matter for its strong performance during Katrina.

In addition to its organizational structure and culture, the Coast Guard's involvement with coastal issues on a daily basis means that officers at specific stations interact with local residents much more frequently than do other branches of the military or officials from FEMA. FEMA has fewer individuals stationed in potential disaster areas on a regular basis, and the work in which they are engaged is far less likely to involve contact with members of the general public upon whom FEMA might call in a disaster. By contrast, because of their regular contact with the local residents, local Coast Guard officers knew who had boats and where to find them during Katrina. Put differently, the Coast Guard's other activities, such as search and rescue operations, dealing with drug and immigration issues, and work with the marine environment may be more complementary to its ability to respond effectively to natural disasters than are the day-to-day activities of FEMA.<sup>44</sup>

The ability to respond to novel situations based on local knowledge is crucial to developing the agility needed for effective disaster response. Decentralized organizational structures, along with personnel in the field having a reasonably wide range of discretion, characterized the firms and agencies that responded well to Katrina. Developing the organizational mission and trust to facilitate that decentralization and discretion is the challenge. It is particularly difficult to develop this sort of culture in government agencies where structure and mission are often changed at the whim of the short-run electoral cycle. The Coast Guard's long-standing independence has given it a favorable institutional environment for developing the right sort of culture. Whether its recent move into the much larger and more politicized Department of Homeland Security will undermine that culture and hamper its future effectiveness is a matter of concern.

All of the explanations for why the private sector outperformed the public sector and why the Coast Guard did comparatively well come back to the institutional environment in which the organizations operate. Private

firms face the incentives of profit and loss and are able to access the relevant local knowledge because they operate in a market context that provides those incentives and makes that knowledge available to them. The intentions of corporate managers are far less important than the fact that the institutional environment rewards or punishes certain types of behavior, and even the most skilled organizational leader will be ineffective without access to the knowledge and feedback the market generates. In thinking about reforming disaster-relief policy, one must always keep in mind that changing captains will not help if the problem is with the structure of the ship.

### 3

## Implications for Disaster-Relief Policy

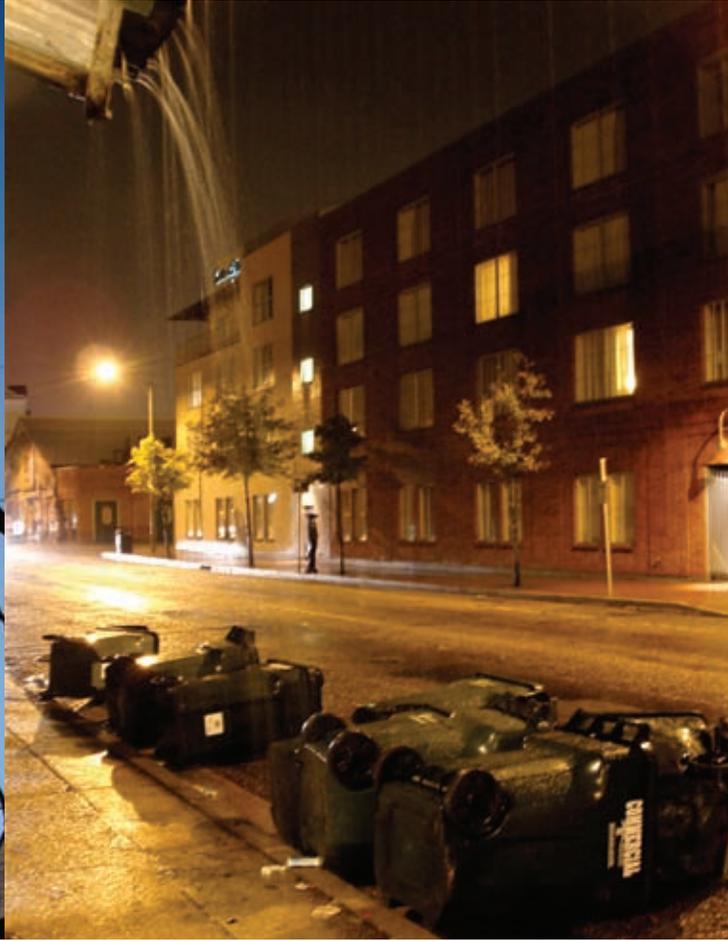
THE BROAD LESSON to be learned from the private sector's positive role during Katrina is that disaster response should provide as much scope as possible for private-sector contributions and, where government responses are deemed necessary, policy makers should take steps to make the agencies involved as independent and decentralized as possible. Additionally, it is worth noting that hiring agency administrators with more expertise in disaster management is *not* one of the lessons to be drawn. It is not clear that such professional expertise can address the fundamental structural problems FEMA and other government relief agencies face. Redesigning protocols and rules will be of little help if the real problems are the incentives facing public agencies, although expertise might help on the margin in decentralizing some elements of the organization. The argument for decentralization is that the relevant knowledge is that of time and place rather than more global or technical expertise. This is a point that disaster research and policy recommendations have not taken seriously enough in their calls for reform. The following recommendations for policy flow out of the successes and failures in the responses to Katrina and generally follow the framework laid out in Table 1, which suggests a move from the upper-left area to the lower-right area of the table.

### **3.A Ensure that private-sector responses are a recognized part of disaster protocols**

LIKE THE HIPPOCRATIC Oath, the first recommendation is that government policy makers "do no harm" by

43. U.S. Government Accountability Office, *Coast Guard Station Readiness Improving, but Resource Challenges and Management Concerns Remain* GAO-05-161, (Washington, DC: 2005), 25, <http://www.gao.gov/new.items/d05161.pdf>.

44. The Coast Guard's budget is pretty evenly divided among its major tasks, with none taking more than 21.3 percent in FY 2007 and the top five items all between 9.9 percent and 21.3 percent. None of its tasks appears to siphon away resources from any of the others.



making sure that they do not interfere with the private sector's attempts to provide relief within the parameters of non-disaster related laws and regulations. Allowing the private sector to do what it does best in the same ways that it does during non-crisis times is the most important principle for policy makers to follow. Because governments at various levels will have oversight roles to play in any disaster response, it is critical that they recognize the legitimate role of private firms when developing response protocols.

One concern that many have about giving the private sector explicit permission to be central to disaster relief is that their desire for profits would conflict with their willingness and ability to help. Corporations, indeed, are not charities, but as the analysis above shows, engaging

in disaster relief is in these companies' long-term self-interest, as it both helps the communities they depend on for their business and creates goodwill amongst their customers. As the Home Depot executive noted, the last thing firms that are in a community for the long haul want to do is alienate their actual and potential customers by either idly standing by or dramatically raising prices during a natural disaster.<sup>45</sup> The incentives of the private sector are very much aligned with their ability to provide disaster relief in the way we saw during Katrina.

The challenge for the public sector is that lacking the incentive of profit and its alignment with getting the job done, the temptation will always be for government agencies to want to be overly involved so that they can continue to justify their current budgets. Although agencies

45. In my extensive reading of the media coverage of Katrina, I could find no reports of charges of price gouging against the big-box stores or other major retailers along the Gulf Coast.

wish to avoid errors of commission, they want to remain involved to justify their existence. Thus, agencies often move in after the fact in the most conservative ways possible. However, the bottom line in any disaster situation is getting the needed resources to those lacking them. As the glowing terms in which Gulf Coast residents speak of the work done by Wal-Mart demonstrate, people do not care whether assistance comes from FEMA or Wal-Mart; they just want someone to get the job done. If the lesson of Katrina is that the private sector is better at marshaling resources and delivering them quickly, then disaster-relief policy should remove the barriers that hinder the private sector from getting the job done.

Baton Rouge were either not returned or returned several days later. She said that government officials “didn’t know who we were, and we didn’t know who they were. We didn’t know who was in charge.”<sup>47</sup> If private-sector firms that want to be part of the relief process are in the communications loop from the start and various levels of government know that they are officially part of the process, state actors will be less likely to prevent them from providing the needed relief. Relief efforts need not take the form of public-private partnerships; rather, policy makers must ensure that public sector actors know that private firms are authorized to be part of the response and relief effort.

### **3.B Increase decentralization of government relief**

BECAUSE NO NATURAL disaster is identical to any other, particularly in the case of catastrophic events such as Katrina, each will have unique elements that require local knowledge and the ability to respond quickly to novelty. Additionally, because such disasters always involve the intersection of the forces of nature and a variety of social and cultural processes, disaster response and recovery organizations have to be especially attuned to the complexities and subtleties of local norms, cultures, and demographics. Strategies that work for hurricane relief along Florida’s Gold Coast may not work in the Ninth Ward of New Orleans or in the agricultural communities of the Carolinas. Effective response requires the ability to tap into local knowledge and to give the affected citizens themselves maximum control over how they engage in the process of relief and recovery. Where government agencies are needed, they should attempt to act in the most decentralized, flexible ways possible.

FEMA was criticized for being insufficiently responsive to the particular needs of Gulf Coast residents, especially those in the New Orleans area who are characterized by a unique mix of races and cultures with a long, complex history. FEMA is large, highly centralized, and driven by fairly inflexible rules and hierarchies, all of which made it ill-prepared for the complexities of Katrina recovery. Local organizations were better situated to provide assistance, given their knowledge of the geography and culture of the area. It is likely that future relief efforts will be more effective if FEMA dollars are transferred to local governments or non-governmental organizations

It is likely that future relief efforts will be more effective if FEMA dollars are transferred to local governments or non-governmental organizations rather than being allocated directly by FEMA officials at the state or federal level.

Various levels of government can take two specific actions that would facilitate the private sector’s involvement in disaster response. First, governments should include local firms in the communications protocols that would be implemented during disasters (such as who is to be notified about disaster declarations, who has the authority to make particular decisions, etc.). Second, governments should make publicly available a list of the firms included in such protocols so that all levels of government are aware that these firms will be part of the disaster response. One of the problems during Katrina was that local, state, or federal authorities rebuffed some attempts by private firms and agencies, such as the Red Cross, to provide supplies to stranded Gulf residents, turning back resources headed to New Orleans, keeping first responders away, and sending a group of firefighters who came to help to two days of sexual harassment seminars.<sup>46</sup> Calls from Wal-Mart’s Deb Hoover to New Orleans Mayor Ray Nagin’s office and the Homeland Security outpost in

46. FEMA’s blocking of relief efforts has been well-documented; see, for instance, Scott Shane, “After Failures, Government Officials Play Blame Game,” *New York Times*, September 5, 2005, A1.

47. Kennedy School of Government Case Program C16-07-1876.0, 12.

rather than being allocated directly by FEMA officials at the state or federal level.<sup>48</sup> Local governments and non-profits are more likely to have the relevant on-the-spot knowledge, but often lack resources in a crisis. Where the private sector is unable to do the job, tax dollars should flow directly to the most local level possible, and the government should give such organizations maximum discretion in using them.

In addition, finding ways to decentralize FEMA's organizational structure by empowering employees at more local levels would improve its responsiveness to some degree. The Coast Guard remains the model to be followed. Policy makers should seriously explore decentralizing FEMA; however, the agency's lack of a clear mission, the fact that it has been reorganized (given different missions) and moved within the bureaucracy multiple times in its history, and its current location within the Department of Homeland Security are factors likely to limit the effectiveness of this effort.

Another way in which relief can be effectively decentralized is by using cash or broadly defined vouchers rather than in-kind transfers as the preferred form of assistance. Vouchers are cash that the recipient can only spend on specific things, similar to a gift certificate from a specific retailer, while in-kind transfers are specific goods or services that government agencies supply directly to the recipient, like the trailers that FEMA provided for many Gulf Coast residents. The economic case for cash instead of in-kind transfers is fairly straightforward: people who wish to acquire the item that would have been provided as an in-kind transfer can do so using the cash, while those who do not can acquire the other things they might wish to have. Vouchers, while still offering fewer options than cash and therefore providing less reliable information about what people really need, are a step up from in-kind transfers in that they at least allow citizens to find the supplier of the product they prefer, which leads to greater competition and higher-quality supplies of the product. Both cash and vouchers empower citizens to make their own choices based on their own knowledge of the trade-offs they face rather than assuming that federal or state officials know better. Rather than receive a FEMA trailer, for example, some Katrina survivors might have preferred a housing voucher that would help them obtain housing in an area outside New Orleans. Others might have preferred cash to tide them over while they

stayed with friends or relatives and looked for a new job in a new area. From the recipient's end, at worst, cash or a voucher leave them no worse off than an in-kind transfer and offers the opportunity for choices that in-kind transfers do not. Cash or vouchers are also easier and cheaper to administer than in-kind transfers, reducing the overall cost of disaster relief. It is much cheaper to simply cut and mail checks than it is to contract for trailers and pay for their delivery and setup.

Replacing in-kind transfers completely with cash or vouchers would eliminate much of the excessive rule-following and red tape that has characterized the disaster recovery process and would allow local residents to deal more directly with the private sector. This enables both residents and firms to coordinate based on their own knowledge and resources, rather than being restricted by tedious rules made hundreds or thousands of miles away by people who are less aware of the particulars of the affected communities.

### ***3.C Move the Coast Guard and FEMA out of the Department of Homeland Security***

THE COAST GUARD has a history of more than 200 years of a fairly specific, observable mission, particularly during Katrina where it was charged with "saving lives." These characteristics have enabled it to develop a powerful organizational culture, which in turn allows it to give great latitude to low-ranking members (as noted earlier). The Coast Guard has also had a great deal of political independence. It is this decentralization and independence that served it so well during Katrina. Even in the absence of market signals and the profit incentive, it is possible for organizations with strong cultures, well-defined missions, and observable outputs to perform well. However, these sorts of organizations are much more the exception than the rule in government for the reasons articulated previously.

The exceptional nature of the Coast Guard's performance is all the more reason to protect the conditions that produced it. The Coast Guard was moved under the Department of Homeland Security in the aftermath of Katrina, ostensibly as a way to motivate the other disaster-relief agencies in the DHS. However, the result may be that the influence flows in the opposite direction. The DHS remains politically controversial, with its mission subject to constant flux by both geopolitical events and the

48. In the particular case of New Orleans during Katrina, the relatively high level of corruption in local government suggests that non-governmental organizations would have been the better choice. Generally, however, any move toward local solutions would be desirable.

preferences of the president or a Congressional majority. One of the problems plaguing FEMA over the years has been constant changes in its mission and structure as those in power have changed. Moving the Coast Guard into DHS has exposed it to the same sorts of dangers. If it is the case that the Coast Guard's strong performance was

not as much so as the Coast Guard), it seemed to perform somewhat better. Third, to the extent that FEMA diverts DHS resources to natural disasters that FEMA could address as a more independent agency, the current organizational structure weakens the department's ability to engage in the rest of its mission.<sup>49</sup> Moving both the U.S. Coast Guard and FEMA out of the DHS would better serve disaster response.

### 3.D Clarify Good Samaritan laws

ONE IMPLICATION OF increasing the private sector's role in disaster preparedness and response is that states and localities may have to take a closer look at their Good Samaritan laws. Although these laws differ from state to state, they generally shield from any civil liability those who attempt to aid others in good faith at the scene of an emergency but are unsuccessful (assuming they were not "willfully or wantonly negligent" or the like).<sup>50</sup> Whether commercial actors are protected by these laws is currently unclear in many states. For example, Texas law explicitly excludes the shielding of "a person who was at the scene of the emergency because he or a person he represents as an agent was soliciting business or seeking to perform a service for remuneration." Although such a law may at first appear to clearly exclude private companies from protection under Good Samaritan laws, the ambiguity lies in whether employees of private-sector firms who are engaged in disaster relief in an official capacity are considered agents performing a service for remuneration.

If there is not a quid pro quo (such as employees being directly paid for specific acts), or if, for example, Wal-Mart employees are clearly just distributing donated goods, it seems that they would be shielded from civil action if they were to somehow cause injury or death. However, some private-sector leaders are concerned that there is still room for legal action when the law is not sufficiently clear. Several states have begun both to redraft their Good Samaritan laws to take disaster response into account and to incorporate that redrafting into their larger disaster

The goal of disaster preparedness and response is to save lives and relieve suffering. It should not matter who does this and how, as long as it gets done in the quickest and most effective way possible.

a function of its organizational culture of decentralization and discretion that grew, in part, from its independence, then moving it back out of DHS and re-establishing it as an independent agency within the Department of Defense or elsewhere would be one way to ensure that its work during Katrina is repeated in other natural disasters.

FEMA was moved under DHS in the aftermath of 9/11 with the belief that it would be part of any comprehensive response to a terror-related disaster scenario. Unfortunately, that move has had three problematic consequences. First, it continues to hamper FEMA's ability to engage in long-term planning and organizational learning by moving it within a bureaucracy, changing its mission, and exposing it to the rapidly changing and highly politicized environment of anti-terrorism policies. Second, adding the various layers of complexity and potential competing missions that come with the DHS makes it more difficult for FEMA to do its traditional work with natural disasters. This was clearly a problem during Katrina. In prior years, when FEMA was more independent (though

49. FEMA's response to the California wildfires in the fall of 2007 was better than its response to Katrina, perhaps because although the fires themselves threatened a large area, the property damage was of a smaller scale and did not involve infrastructure to anywhere near the extent that Katrina did. The fires threatened or destroyed only about 10 percent as many homes as Katrina did. Several interesting comparisons can be found in a *New Orleans Times-Picayune* analysis, available at [http://blog.nola.com/times-picayune/2007/10/california\\_fires\\_cant\\_be\\_compa.html](http://blog.nola.com/times-picayune/2007/10/california_fires_cant_be_compa.html). FEMA may have learned a little from Katrina; however, FEMA was heavily criticized during its wildfire relief efforts, and had to fire several managers who were involved in staging a "news conference" where FEMA staffers posed as reporters and made it appear as though FEMA was doing great work. This suggests that what FEMA learned from the aftermath of Hurricanes Katrina and Rita was limited. The aftermath of that public relations disaster required a response from DHS leadership that, presumably, distracted them from their core mission.

50. A set of links to state Good Samaritan laws can be found at <http://www.cprinstructor.com/legal.htm>.

response revisions. In fact, the American Public Health Association has developed model legislation,<sup>51</sup> which accounts for lessons learned from Katrina and other recent disasters and explicitly extends Good Samaritan protection to commercial and non-profit organizations. All 50 states and the federal government should look at this legislation as a model for reform. The ambiguity of what actions the existing laws would and would not protect caused needless and wasteful uncertainty, delays, and work-arounds during the Katrina response, particularly by medical personnel. These problems need to be addressed, especially as more localities include the private sector in other forms of disaster response.

## 4 Conclusion

THE GOAL OF disaster preparedness and response is to save lives and relieve suffering. It should not matter who does this and how, as long as it gets done in the quickest and most effective way possible. The private sector, especially big-box firms such as Wal-Mart and Home Depot, demonstrated during Katrina what they also demonstrate every day in the market: they are very effective at logistics and supply chain management because they have strong incentives to provide the goods and services that people want. As those affected by Katrina directly acknowledged, sometimes grudgingly, the big-box stores were much better at this task than were the official government agencies. Those agencies face a very different

set of institutional incentives within the political process, incentives that lead them to be less able to work in the genuine public interest, less willing to take appropriate risks, and more concerned with their own power and budgets, all of which explain their failures during Katrina. The first principle of disaster relief should be to allow private-sector firms as much of a role as possible in the response and government agencies should do all they can to get out of their way.

The one government agency that did perform admirably was the U.S. Coast Guard. Its decentralized organizational culture and relative political independence enabled the Coast Guard to grant a large degree of discretion to on-the-spot actors who could take advantage of their access to local knowledge. These same benefits of decentralization explain the success of private-sector firms, in that decentralization enables better use of local and contextual knowledge. To the extent that the private sector cannot accomplish disaster relief operations, policy makers should strive to structure government efforts in ways that take maximum advantage of local knowledge by providing relief in the form of cash or broadly defined vouchers, decentralizing federal agencies, and making as much use of local government and non-governmental organizations as possible. When future natural disasters occur, policy makers should remember that, as the relief efforts after Hurricane Katrina demonstrate, increased private-sector involvement and more locally oriented government efforts are critical to saving lives and easing suffering quickly and effectively.

51. See the "Good Samaritan Legislative Initiative," part of the North Carolina Institute for Public Health's "Public/Private Legal Preparedness Initiative," <http://nciph.sph.unc.edu/law/apha.pdf>.





---

## 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