

**MERCATUS CENTER**  
**GEORGE MASON UNIVERSITY**

**REBUILDING NEW ORLEANS AFTER HURRICANE KATRINA:  
WHAT'S WORKING**

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Testimony Presented to the  
US House of Representatives  
Committee on Oversight and Government Reform  
Subcommittee on Domestic Policy

June 26, 2007

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Mister Chairman, Ranking Member Issa, and members of the subcommittee:

Thank you for the opportunity to testify before the subcommittee on labor law enforcement and regulation in New Orleans after Hurricane Katrina. We are grateful for the chance to share our research with you and hope that it will prove helpful. We should note that we are presenting the results of our research and that this statement does not constitute an official position of George Mason University.

In December 2005, the Mercatus Center at George Mason University began a five-year study in Louisiana and Mississippi to learn more about how communities respond to and rebuild after disasters. Through intensive fieldwork and qualitative and quantitative analysis, we hope to understand better the comparative strengths and weaknesses of the private sector, the public sector, and civil society in promoting community rebound after disasters. This is an ongoing study for us that we plan to continue through 2010.

In order to learn first-hand what is working and where communities are seeing successes, we have focused our attention on the rebuilding strategies of ordinary citizens, their families, and communities in Louisiana and Mississippi. To date we have conducted almost 200 in-depth interviews in Orleans and St. Bernard Parishes, Louisiana and Harrison and Hancock Counties, Mississippi.

In January 2007, the Mercatus Center issued a policy report entitled “Disastrous Uncertainty: How Government Disaster Policy Undermines Community Rebound.” The report is attached to our testimony. We would like to take this opportunity to share the findings presented in that report as well as additional research we have conducted in the months following.

In the aftermath of Hurricane Katrina, when the waters had receded and families began to take stock of their homes and make decisions about whether and how they would rebuild, governments on all levels began proposing their own plans for rebuilding. On September

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

Today, some 22 months after the hurricane, communities along the coast are in various states of rebuilding. Some are largely rebuilt, while many others appear to have made little progress. Despite the promise of \$110 billion in federal funds, the recovery remains slow, and in some communities it appears stalled altogether. Government programs at all levels are a mess.

The situation cannot be corrected, however, by expanding resources to these programs. The problem is not a scarcity of government funding. The problem is that governments at all levels are creating persistent uncertainty and confusion. By failing to send clear messages about what rules will govern the rebuilding process; by failing to clearly articulate what services and resources will be provided; and by failing to deliver on the promises that have been made, governments at all levels have made it difficult, sometimes impossible, for residents and business owners to make informed and intelligent decisions about whether and how to rebuild. The uncertainty created by government programs—programs intended to help Gulf Coast residents rebuild—is having significant deleterious effects on the rebuilding process.

This policy-generated uncertainty works counter to the positive signals sent by civil and commercial society, which are critical to sustainable rebuilding. Individuals and families do not rebuild in isolation, but rather, as members of communities—neighborhoods, businesses associations, religious groups and social organizations. Individuals making decisions about rebuilding do so within a larger context, guided by the signals sent by other citizens. These include the positive signals that come from the reopening of grocery stores, auto mechanics, and day care providers (to name just some critical businesses); the creation of new jobs; the reopening of schools; the resumption of church services and social organizations; calls for neighborhood meetings; and the return of other households.

The conflicting signals sent by governments to individuals, families, communities, businesses, and non-profit groups attempting to rebuild create what we call “signal noise.” We define this as the persistent distortion of signals that does not self-correct, making the underlying signals – the signals that are critical to guiding sustainable recovery – more difficult for people on the ground to read and interpret.

The positive signals created by fruitful civil and commercial interactions are often drowned out by signal noise generated by public policy. And to the extent that public policy generates signal noise by sending conflicting messages, failing to deliver promised goods and services, failing to clearly delineate the “rules of the game,” and interfering in organic rebuilding, the rebuilding process is slowed, uncertainty compounds upon itself, and Katrina’s victims continue in a state of limbo. To take but one example, the best

work of neighborhood associations in rebuilding a sense of community is undermined by unclear or arbitrary rules about how and when local governments will demolish damaged homes or take property that officials deem blighted.

Signal noise is not the natural confusion in the immediate aftermath of a disaster, nor is it a natural and unavoidable phenomenon. Rather, it is often the unintended consequence of poorly conceived policy interventions. Signals generated by civil and commercial interactions, which possess built-in incentives that amplify the right signals and minimize the wrong ones, tend to sort out and reduce confusion faced by individuals. Government policy does not possess self-correcting properties. Instead, signal noise generated through public policy tends to be stubbornly persistent.

The Louisiana Road Home program, to take but one example, spent months seemingly unable to process the promised checks of up to \$150,000 to help Louisianans rebuild. Indeed, the program had cut fewer than 400 checks as of January this year, and it was March before the program ramped up to the point where it was processing more applications than were coming in. Today the program is suffering from a \$6.5 billion shortfall, and award letters from the program have been amended to include a caveat that the payouts are subject to cancellation if the program runs out of funds. The key problem here is not the lack of money, but the confusion and signal noise generated thereby.

The processes by which cities and states are creating new urban and regional plans are also fraught with problems that create uncertainty and slow recovery. New Orleans went

through four planning processes before last week finally approving the Unified New Orleans Plan. But the plan has many serious flaws. Most significantly, it is estimated that the plan will cost \$14 billion to implement, and there is no indication where the majority of this money will come from. The plan is still vague, contradictory, and more of a wish list than a true plan. These two problems make the plan a major source of signal noise, which slows the recovery more than it enhances it. The Bureau of Governmental Research, a non-partisan New Orleans-based public policy research group, argues, “[The plan] does not provide the information needed for decision making. It does not tell the public with specificity where its policies would apply. And its policies are sometimes so vague that knowing where they would apply still would not provide enough direction.” Our colleagues Sanford Ikeda and Peter Gordon identify in a forthcoming policy paper many of the problems that are inherent in politically-driven urban planning.

To sum up, there is a great deal of signal noise to which policy makers are subjecting returning residents. In our interviews, this frustration is palpable. And the recovery process is being hampered by it.

But in spite of the signal noise being generated by government at all levels, many communities are showing strong and positive signs of rebounding. The Broadmoor Improvement Association has created partnerships with universities and businesses and has shown enormous progress: about two-thirds of the neighborhood’s homes have been or are being rebuilt. Critically, the community is working not just to rebuild but to make a better, more vibrant neighborhood.

In New Orleans East, the Vietnamese-American community centered around the Mary Queen of Vietnam Catholic Church rebounded with enormous speed, with the church serving as a rallying point for the community. The newly-formed Mary Queen of Vietnam Community Development Corporation is spearheading economic development efforts in the neighborhood, including the revitalization of two shopping centers. Plans are in the works for a community aquaculture facility, a museum devoted to preserving the history of Vietnamese-Americans, and a senior citizens' housing and activity complex across the street from the church.

Even in the hard-hit Lower Ninth Ward, groups like the Lower Ninth Ward Neighborhood Empowerment Network Association are working to stimulate community response. They are buoyed by the slow but significant redevelopment of businesses along the St. Claude Avenue corridor and the creation of the Lower Ninth Ward Health Clinic, the only health care facility in the area. The association's leaders, working with block captains, are holding regular meetings and tracking down pre-Katrina residents who have not returned, keeping them informed about developments in the community and keeping tabs on their intention to return. They are also critically following and responding to the signal noise generated by continued discussions by policy makers about whether their community should be "allowed" to rebuild.

All of this is to make a simple point: it is bottom-up, grassroots rebuilding efforts that are repopulating New Orleans, reopening businesses, and helping the city to not simply

rebuild, but to reconstruct itself. It is the work of myriad volunteers, contractors, religious groups, small business owners, non-profit groups, and community leaders who are showing the real leadership in the rebuilding process. These people are the heroes, and their work seldom receives recognition or praise. These are the people leading the recovery process, and elected officials should focus on supporting their work, rather than trying to manage a top-down recovery.

In our research, we have identified four key strategies by which people are employing social capital to produce positive signals that are guiding community recovery. We will not go into great detail here, as these strategies are treated more extensively in our attached policy report and elsewhere in our academic papers. Suffice it to say that these strategies create the types of positive signals that are crucial to community recovery and that policy makers must take great care not to drown out.

The first of these strategies is mutual assistance, by which residents exchange labor, shelter, child care services, tools, and expertise. Mutual assistance sends the signal that “we’re all in this together” and that the community is rebounding as a whole. The second strategy is charitable assistance, with which we are all familiar. Charitable assistance provides signals that third parties wish to invest in communities. The third strategy is commercial cooperation, by which businesses create the jobs and provide the material needs that are vital to any form of sustainable community. And the fourth and final strategy, which we call the “build it and they will come” strategy, occurs when private citizens, business owners, and community leaders create or redevelop a key community

resource that helps to tip the scales for other residents and business owners on the fence about returning.

What our research suggests is that what people need and want most of all are quick, clear, and credible commitments from governments at all levels about what will be provided and when. Or to put it another way, the thing most responsible for the slow pace of the recovery is the confusion brought on by the signal noise emanating from the public sector. The best thing that policy makers can do to help communities respond is to respect private property, enforce the rule of law, and ensure that reasonable and appropriate commitments already made will be fulfilled. Residents need the information that will enable them to make decisions for themselves. But to be useful, this information must be clear and credible. And credibility requires follow-through, oversight, and making only those commitments which are realistic and achievable. Commitments from governments at all levels that are later reneged upon only serve to hamper the recovery.

What will most effectively discourage communities from rebuilding is if policy makers continue to create new regulations, new plans, and new programs. It is much more important to fulfill promises already made and to allow communities and the market to respond accordingly. But it is vital that these are realistic and possible promises that focus on creating and enforcing an environment in which grassroots-led, sustainable rebuilding can occur. Policy makers can contribute to the progress by making sure that commitments that they make are credible, true, and will be realized. To the extent that governments provide bad or misleading information, or tell people what they want to hear

instead of the truth, the recovery process will only be slowed or made less resistant to future shocks and challenges. And when policy makers make promises based on the world as they wish it exists rather than the world as it does exist, they should know they are only hurting the people they are trying to help.

We have seen in New Orleans and elsewhere in Louisiana and Mississippi how organic, community-led rebuilding is leading the recovery after Hurricane Katrina's massive devastation. And we have also seen how top-down recovery is sending mixed messages, diluting the positive signals that come from civil society and the private sector, and slowing down a recovery process that, in order to address the massive task at hand, must be flexible and adaptable.

Simply put, we will never rebuild communities – in the true sense of the word – with programs and regulations created and run out of Washington that are slow to adapt, subject to political wrangling, and do not possess the impressive information and talent of the people struggling to rebuild their communities after Hurricane Katrina.

We are seeing what works, and policy makers must bear in mind the importance of community ties and social capital in the recovery process. Governments can create Potemkin villages. But they cannot create communities.

Policy makers must be aware of the importance of stable and well-enforced rules for rebuilding the Gulf Coast. Arbitrarily and frequently changing the rules going forward, or

failing to fulfill previous commitments, will only serve to hamper the rebuilding process. Policy makers should avoid policies that artificially distort market- and community-led rebuilding and redevelopment, as these policies tend to create massive signal noise which drowns out organic signals and stifles the ability of communities to rebuild themselves.

We thank Chairman Kucinich, Ranking Member Issa, and the members of this subcommittee for inviting our testimony and we look forward to answering any questions you may have.

## **Appendix**

*Disastrous Uncertainty:*

*How Government Disaster Policy Undermines Community Rebound*

Mercatus Policy Series

Policy Comment No. 9

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January 2007