

Example 12.1

New Orleans After Hurricane Katrina

Sometimes government decisions are painfully difficult. The question of how to respond to the devastation in New Orleans brought by Hurricane Katrina in 2005 is a case in point.

The Federal Emergency Management Agency (FEMA) had long ago listed a strong hurricane striking New Orleans as one of the three most likely catastrophes to strike the United States (the other two being a terrorist attack on New York City and a major earthquake in San Francisco). FEMA knew that the levies built to protect New Orleans would likely be overtopped or breached by a 4- or 5-category storm. Yet the levies were never reinforced or rebuilt, and the predicted tragic consequences came to pass in August of 2005.

People throughout the United States wanted to help the residents of New Orleans who lost family, friends, their homes, and other property to the hurricane, and they have been bitterly disappointed by the meager response of the federal government to date. The desire to help was no doubt reinforced by the predictability of the tragedy given the failure to reinforce the levies and also by the fact that so many of the victims were poor. The difficult question, however, is ‘what is the best way to help?’

The standard response is that the federal government should form a partnership with the private sector and rebuild the houses and business structures that were destroyed so that the people displaced by Katrina can return to their homes and lives as they were before the storm. People understand the powerful attachment to one’s neighborhood and city, and simply assume that the natural thing to do is to rebuild the city. These feelings are so strong that rebuilding New Orleans was the only policy that was seriously considered. The national debate centered on different rebuilding strategies

Shortly after the storm, some economists wondered whether rebuilding New Orleans really was the best strategy. Most notable among them were Edward Glaeser of Harvard University and Gary Becker and Justice Richard Posner of the University of Chicago. The original cost estimates to rebuild the city were \$100 billion. There were just

under 500,000 people living within the New Orleans city limits when Katrina struck. \$100 billion is \$200,000 per resident. They wondered whether it might not have made more sense to just give each surviving resident the \$200,000, have them use the money to relocate elsewhere, and essentially abandon the city.

A number of points can be made in favor of the subsidize-and-relocate strategy:

- Miles of levies were breached and would otherwise require rebuilding or replacing to protect New Orleans from 4- and 5-category hurricanes. A rebuilding and replacement project of this magnitude would take a few years at best to complete. Yet those who favor rebuilding the city want the displaced residents to be able to return to the city fairly quickly. But this means that they would be subject to the threat of yet another devastating hurricane until the levies were fortified, the probability of which is rising with global warming. Therefore the expected costs of having to rebuild once again have to be added to the original \$100 billion estimates.¹
- Adding to the problems of rebuilding the levies is the problem that the city is slowly sinking over time. Ironically, the levies themselves prevent the Mississippi River from dumping the silt that would prevent the city from sinking.
- New Orleans has been a city in decline since 1960, having lost almost a quarter of its population since then and suffering economically. In 2000, 27% of the population lived under conditions of poverty (versus 12% nationally) and the median family income of the city was just 64% of the national median family income. A relocation subsidy of \$200,000 is about 10 years worth of the median income. Moreover there were no signs that the decline would end before Katrina struck. The only two thriving, relatively high-wage businesses were the seaport and energy (oil and gas), yet these industries combined employed fewer than 10,000 people. The big employers were tourism, with 37,000 workers in food services and accommodation, and health care and social assistance, with 32,000 employees. Workers in these two industries could easily transport their skills elsewhere and find comparable jobs. (Glaeser, pp. 3-5).

The point is not to abandon every city that is in decline, because the housing stock and other infrastructure are already in place. Relocating elsewhere would require investment in housing and infrastructure in other places, a huge additional cost relative to having

¹ The breached levies had been rebuilt by 2007 but only to their original specifications, which was to withstand a Category 3 storm.

the people remain. Thinking about relocation makes sense only when the housing and infrastructure have been destroyed as in New Orleans, and have to be rebuilt in either case.

- The seaport would have to be maintained. It is the fifth largest seaport in the world and vital to U.S. imports and exports. And few would favor abandoning the fabled French Quarter. But neither the port nor the French Quarter requires anywhere near a city of 500,000 to remain viable. The port employs only about 7,500 people and the French Quarter occupies only a few square blocks within the city.
- Would 500,000 people choose to live in New Orleans unless they were confident that the government sector would come to their aid in the face of natural disasters such as Katrina? Private insurers would not be willing to provide the insurance because the individual properties being insured do not represent independent events with respect to wind and water damage. Is government provision of social insurance in the form of a promise to rebuild really the best response in a city as vulnerable to hurricanes as New Orleans? The fact is that the government's willingness to provide disaster insurance often leads people to make risky and economically inefficient choices about where to live.

Glaeser, Becker, and Posner were not necessarily recommending that New Orleans be abandoned, only that the subsidize-and-relocate strategy should have entered the national debate over what to do. And the city was not abandoned; rebuilding has been ongoing for the past two years. The pull of neighborhood and city on the public consciousness was extremely strong. Yet the question lingers as to whether rebuilding really is the best strategy.²

Sources

- E. Glaeser, "Should the Government Rebuild New Orleans, or Just Give Residents Checks," *The Economist's Voice*, V. 2, No. 4, 2005
- Gary Becker and Richard Posner at The Becker-Posner Blog, http://www.becker-posner-blog/archives/2005/09/katrina_cost-be.html

² By 2010, five years after Katrina struck, large parts of the more devastated parishes remained sparsely populated and many of the people who left the city had not returned. The Census Bureau estimated that the population of New Orleans in 2009 was 354,850, only about 75% of its pre-Katrina size. Source: Population estimates are available on the U.S. Census Bureau website: factfinder.census.gov/servlet/SA.