Peter T. Leeson and Russell S. Sobel

Centralization Proves Inadequate to Disaster Aid

Private Sector Efforts Were Thwarted by a Centralized Governmental Response

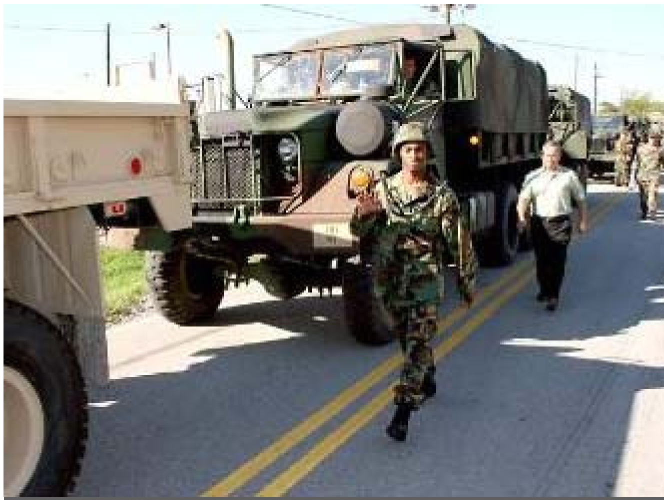
On August 25, 2005 Hurricane Katrina ravaged the Gulf Coast, causing over US$90 billion in damage. This was more than twice as damaging as the costliest hurricane in United States history before Katrina, Hurricane Andrew. The havoc Katrina wreaked killed more than 2,000 citizens and the debris it generated—some 100 million cubic yards—was 35 times the rubble left after the attacks of September 11, 2001 in Manhattan. Chaos reigned in the aftermath of this tragedy. Although some of this chaos was unavoidable, a significant portion was preventable. Man's folly compounded nature's fury, exacerbating one of the most horrific disasters in U.S. history.

The largest failures following Hurricane Katrina were results of government attempts to centrally plan the disaster relief response. Private sector entrepreneurial efforts were thwarted, delayed, and stifled by FEMA and other government agencies that insisted on centrally planning disaster relief efforts. The few pockets of success that existed were the result of private, decentralized decision-making undertaken by for-profit businesses, such as Wal-Mart, and non-profit organizations, such as the Red Cross. In many cases these success stories are tales of how private individuals were able to circumvent the layers of bureaucracy and restriction imposed on economic transactions in the wake of the storm.

Central planning fails to coordinate economic activity under "normal" circumstances. It fails even more miserably under conditions of uncertainty and rapidly-changing supply and demand, such as those that attend natural disaster. Government's failed response to Katrina was simply a reflection of the inherent failure of central planning itself. The superiority of private decision making over central planning is as pronounced for natural disaster relief as it is for traditional economic activities.

When the Soviet Union crumbled in 1991, the entire world witnessed the unavoidable failure of central planning. Despite this, societies have continued to run various aspects of their organization in the same way the Soviet Union ran its economy, as though if only the central planning were limited to certain critical aspects of our lives its failure could be avoided. Unfortunately, this view is seriously mistaken. Nowhere can this be seen more readily than in the case of natural disaster relief in the U.S., evidenced most recently by Hurricane Katrina.

Any activity involving multiple and disparate actors must overcome a basic "coordination problem" to be successful. Whether we are dealing with how to organize the production and distribution of shoes, or how to respond effectively following a category-five hurricane, somehow the plans and decisions of relevant individuals must come into alignment for the required cooperation to take place. The reason for the omnipresence of the coordination problem is simple enough. The information needed to align the interests and activities of diverse individuals is dispersed. It does not exist in a centralized form in the hands of any one individual or group of individuals. Information always exists in scattered, fragmentary form. It is held by individual actors and often inaccessible by others.


Hurricane Katrina led to a rare troop mobilization on U.S. soil.
Photo: Kentucky Government

In the case of natural disaster relief the problem, then, is this: How can we coordinate the demands of disaster victims, which only they individually know (and which of course differ from victim to victim), with the supplies of potential disaster relievers, which are again known only locally by each agent (and again differ from supplier to supplier), who have resources that could be brought to bear on the situation of those in need?

Socialism failed because government planners could not solve this problem in the case of clothing, food, transportation, and indeed every other economic decision planners needed to make. The Federal Emergency and Management Agency (FEMA) in the United States failed to adequately respond to Hurricane Katrina because it could not solve this problem in the context of disaster relief.

Central planning is unable to tap into the dispersed and fragmented information discussed above. The simplest way to see why is to consider how the private sector is able to do so. In the marketplace, the buying and abstaining from buying decisions of individual actors generate market prices. Market prices thus reflect the needs of diverse and separated individuals. They act as a telecommunication system that generates and conveys important information to consumers and producers.

Consumers can observe price changes of the goods and services they buy and know "automatically" how they should respond. If, for example, a disaster in Iowa destroys corn, the consumers of corn-based products, such as cereal, do not need to know this. Through the market system, the price of cereal rises, which leads consumers indirectly to consume less corn. On the other hand, the rising price of corn "tells" corn producers from other parts of the country that they should bring their corn to Iowa. Producers have an incentive to do this because they stand to make money by doing so. In this way, market prices generate the information required to overcome the coordination problem and provide the incentives for market actors to behave in ways that achieve this.

Unlike the private sector, the political process does not generate market prices, nor does government have the incentive to be a careful steward of the resources it controls. For market prices to emerge, goods and services must be bought and sold. But the government is not in the business of selling anything. It only takes resources (taxes), and then gives them to others (through government purchases or direct transfers). Consequently, political decision makers do not have market prices directing them where expenditures are needed most.

Private non-profit organizations also do not sell anything (or more accurately, do not sell goods and services at market prices) and so may face a similar problem. However,

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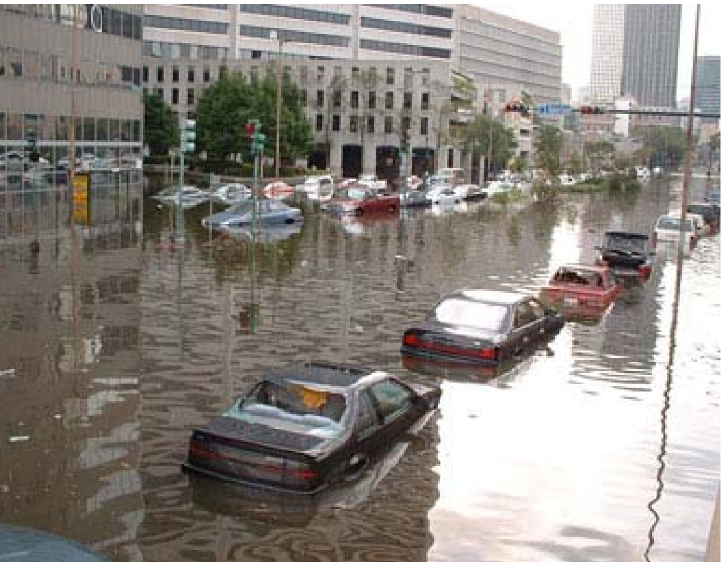

Flooding in downtown New Orleans.
Photo: Marty Bahamonde/FEMA

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unlike government, private non-profit organizations at least have an incentive to use resources effectively, since if they do not, their donors are likely to stop giving them money. Government, in contrast, cannot "go out of business" in this way. Whether government does a good job or a bad job in any particular case, it is not in any danger of "going bankrupt." When one is able to legally compel others to support him, he is not dependent upon satisfying his supporters' to continue to operate.

These simple differences between the private and public sectors explain the mountain of government gaffes when it came to responding to Hurricane Katrina, and private sectors successes, such as those of Wal-Mart, State Farm Insurance, and others.

Even for activities as essential as protection of private property—a function traditionally seen as belonging exclusively to the state—government failed and the private sector activity was successful. It is difficult to forget the images of New Orleans police officers looting the very stores they were charged with protecting. Most observers found these actions unconscionable, which indeed they were. But they were also predictable using the basic logic discussed above. What incentive did public police officers have to protect the property of hurricane victims following Katrina? Essentially none. The absence of appropriate incentives here was not only manifest in corrupt police officers, but also manifested in the many police officers who simply fled the scene when it became apparent what kind of mayhem was in store.

To deal with the failure of public property protection after Katrina, some Gulf Coast residents sought private sector assistance. Unlike public sector actors, who had neither the information nor the incentives required to effectively react to this need, for-profit security firms, such as Blackwater USA, which were hired by residents, successfully secured the property rights of their customers. This wasn't magic. It was the simple result of the market's ability and incentive to learn of needs for their services and to satisfy these needs successfully.

Nobel Laureate F.A. Hayek called central planning the "fatal conceit." Hurricane Katrina demonstrated just how fatal this conceit can be. Central planning for natural disaster relief, just like in all other affairs, is destined to fail. Private sector activity, also as in all other affairs, provides the best chance of succeeding. Government's role after a disaster should be no greater than its role in the everyday economy. This means leaving the coordination of flows of goods and services to the marketplace.