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# Mitigating Disaster: Abolish FEMA and Let Gas Prices Rise

BY DWIGHT R. LEE

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I heard no complaints about the money people were paying for the federal government's relief effort in the aftermath of Hurricane Katrina. I cannot say this about the higher prices for gasoline. It was hard to find anyone not complaining. Why the difference? After all, the extra amount the average family had to pay for gasoline because of the supply disruptions caused by Katrina is much less than the extra taxes it will pay for the Federal Emergency Management Agency's (FEMA) relief effort. When I asked a number of people, including students, why complain about higher prices for gas and not higher taxes for relief efforts, the response was the same—we don't mind paying more taxes to help others, but we don't like being ripped off by greedy oil companies.<sup>1</sup> No doubt this answer reflected sincere feelings of generosity and concern. But it was fundamentally mistaken for at least two reasons.

The first reason is that it fails to recognize how higher gas prices (and higher prices in general) after a natural disaster greatly increase our ability to help others. The second reason is that the political process (as opposed to the market process) reduces our incentives to understand how best to help others, and exploits this lack of understanding to take more of our money to provide far less help than is possible. When these two reasons are considered together, the conclusion is that the most effective things we can do to help disaster victims are: 1) pay higher prices for gas and 2) abolish FEMA.

Of course, most people wanted to help the victims of

hurricanes Katrina and Rita, but they wanted to do so effectively. One of the most effective ways of providing that help was by sharing badly needed products, such as gasoline, with those in the devastated area. And higher prices are the most effective way of motivating that sharing.

The higher prices we paid for gasoline reflected the fact that the hurricanes temporarily reduced gasoline supplies. After the hurricanes there was not as much

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gasoline available as consumers wanted at pre-hurricane prices. Furthermore, more gas was suddenly needed along the Gulf Coast to bring in rescue personnel, evacuate the homeless, help clear the rubble, and get on with reconstruction efforts. The higher gas prices motivated tens of millions of drivers to conserve gasoline, allowing more to be available where it was badly needed. No matter how much sympathy we expressed for the hurricane victims, it is naïve to think we

would have reduced our gas consumption much, if any, without a price increase. Most people would have rationalized that their reduction wasn't going to make any noticeable difference, so why should they make a sacrifice when hardly anyone else was?

There were price increases for other products urgently needed in the stricken area, and those higher prices also motivated us to conserve so more would be available to the hurricane victims. We didn't notice the

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higher prices for most of these products as much as we did for gasoline because their supplies were not disrupted to the same degree. But there were a host of price increases that resulted from the shortages along the Gulf after the hurricane, and these prices provided the necessary incentives for all of us to adjust our consumption in ways that helped the victims.

The help we provided by paying higher prices was indirect, and not as easily seen or emotionally satisfying as shipping resources directly to people in need. But we shouldn't let this blind us to the facts.

Of course the victims of Katrina and Rita needed more than extra gas and other products. Many lost not just their homes, but also their jobs and the ability to pay for what they needed. Their very survival often depended on direct shipments of food, bottled water, rescue equipment, medical supplies, and building material. This help is what we are going to pay for with higher taxes that few people complained about because, according to what they say, they don't mind paying what it takes to help people in distress. But there is another reason people don't complain about the amount they pay to finance government relief efforts, and this reason explains why these efforts are less effective than they should be. Almost no one has any idea how much he is paying for relief efforts, and even if he did, he would have little reason to consider whether the relief is being provided cost-effectively.

It is doubtful if anyone really knows how much he pays in taxes. If you prepare your own taxes, you might remember how much you paid in state and federal income taxes last year. But politicians have been masterful at disguising and delaying taxes in ways that make it impossible to really know what our tax bill is and what our money goes for. Who knows how much he paid in sales taxes, or excise taxes, or import taxes (in higher prices), or corporate-profit taxes (also in higher prices), or in inflation, or what the present value is of his future tax increases resulting from current spending, or his share of the productivity losses caused by the excess burden of taxation? Nobody knows.

But even if we did know our total tax bill, we would still have no idea how much of what we pay goes for particular government programs and services, such as relief efforts, or how much more we will pay in taxes

because of a natural disaster like Hurricane Katrina. Indeed, few of us are aware of more than a small fraction of the government activities we are paying for. So when the cost of a government activity, like providing relief for hurricane victims, goes up, people simply aren't aware of, or don't register, the increase.

It's not just our ignorance of how much our taxes are and what they are going for that allows politicians to provide us with services that are poorly designed and incompetently delivered and then charge us more than they would be worth even if they were efficiently provided. There is also the problem that individuals can do little about the situation. No one can switch his patronage, and tax dollars, from FEMA to a competitive relief agency.

### **The Problem with Getting Our Gas from Tax Mart**

If gas were paid for and provided as government disaster relief is, an increase in the cost of gas would motivate few if any complaints because the increase would go largely unnoticed. Unfortunately, any motivation for people to adjust their consumption appropriately in response to the higher cost of gasoline would disappear right along with the complaints about cost. Misallocation and waste in the use of gasoline would be guaranteed.

The problems would extend beyond those caused by the lack of consumer information on the cost of gasoline. If gas were provided like disaster relief, we would have to pay through our taxes; gas would then be available at a price of zero at Tax Mart gas stations in quantities determined politically. If you wanted to buy your gasoline from a private supplier, or buy more than your Tax Mart quota allows, you could do so, but your tax bill would remain the same. No one would be surprised if the service and gas were noticeably worse at Tax Mart than at private gas stations. Tax Mart bureaucrats wouldn't have to worry about budget cuts despite lousy service and poor quality gas, since people would continue to put up with its poor performance—the only alternative would be to pay twice for gas. Indeed, Tax Mart's budget might be increased in the futile hope of improving its operation. There would surely be complaints about the quality of the service, but many would confront the cognitive dissonance brought on by their continued patron-

age of Tax Mart despite its inadequacies by coming up with rationalizations for its problems.

So we shouldn't be surprised that few people complained about the cost of the government's efforts to provide relief for the victims of natural disasters. Neither should we be surprised that the complaints that these relief efforts are generally carried out ineptly, and not infrequently (as was the case with Hurricane Katrina) with almost criminal negligence, do little to motivate improved performance next time. There is little, if anything, any individual taxpayers can do that would noticeably motivate government officials to use tax dollars more efficiently to help victims of natural disasters. With no sense of empowerment, taxpayers have little reason to pay more than passing attention to the inadequacies of disaster relief. Some might become agitated enough to vote against the politicians supposedly in charge, and they might be defeated. But such changes at the top seldom result in fundamental changes in the bureaucratic incentives that ultimately determine the performance of government programs. No matter what group of politicians wins the next election, as long as taxpayers have no idea how much they are paying for disaster relief and have no control over how much they pay whether or not they are satisfied with how well the relief is provided, there is little reason to expect the next relief effort to be any better than the last.

### Abolish FEMA

Helping large numbers of people after natural disasters is complicated, made more so by the damage to the physical and social infrastructure needed to provide the help. No relief effort will be flawless. But if those paying the bill for disaster relief knew the price and had some control over how the money was being spent, improvements would be made in the effectiveness and efficiency of the help. Taxpayers can never have the same degree of information and control as they have when buying gasoline. They can be given more information and control than they have now, however, and do

more to help disaster victims. How? By abolishing FEMA and getting the federal government out of disaster relief.

The immediate response to the recommendation that federal government quit providing disaster relief is that private responses would be woefully inadequate because of the free-rider problem. Without the federal government forcing everyone to contribute to disaster relief through taxation, people would contribute little if any to private relief organizations (such as the American Red Cross, Salvation Army, United Way, and many other reputable charities), attempting to free-ride off the contributions of others.

The free-rider problem no doubt reduces voluntary contributions below ideal levels after natural disasters. But the question is not whether voluntary contributions are a perfect solution to the disaster relief, but whether the addition of FEMA to voluntary contributions and private relief efforts makes things better or worse. Despite free-rider problems, Americans give generously to private charities to address a host of social problems, and they are particularly generous after disasters, natural or otherwise. U.S. charities raised over \$2.2 billion after the 9/11 terrorist attacks, and nearly \$1.3 billion for the victims of the 2004 tsunamis. But according to *The Chronicle of Philanthropy*, as of about a week after Katrina hit New Orleans, the pace of private charitable giving to victims was greater than that following these previous disasters.<sup>2</sup> Also, private giving would surely be greater if people were able to keep more of their income and were not lured into believing, as many are, that their tax dollars were taking care of the problems.

It is doubtful, of course, that private charitable contributions would come very close to the amount spent by the federal government. When comparing relief efforts funded by the federal government and those financed by voluntary contributions, however, it is a mistake to concentrate solely on the free-rider problem associated with the latter. The waste, delays, and incompetence that characterize FEMA are the result of a free-

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rider problem inherent in all federal spending programs. Taxpayers can be forced to pay for FEMA, but they cannot be forced to contribute to those collective actions needed to prevent FEMA from taking too much of their money and spending it in ways that provide too little help for disaster victims and often make things worse. (The current level of government spending for disaster relief undoubtedly increases the harm to life and property. Subsidized insurance and government-financed rebuilding programs lower the private cost of building in areas highly vulnerable to hurricane and flood damage. Making less money available for such subsidies would result in more rational patterns of development, save lives, and reduce property damage in the future.)

Taxpayers and victims of disasters would be better off if each 1) contributed to efforts to monitor FEMA and report on the cost and effectiveness of its activities, and 2) communicated to their political representatives that the resulting information was going to influence how they were going to vote in the next election. But this isn't going to happen because of the government free-rider problem. This problem seldom gets discussed, even though it is probably a bigger obstacle to helping disaster victims today than the free-rider problem associated with private giving would be if FEMA were abolished.

No one denies that contributors to private charities also fail to monitor those charities diligently and that those charities often fail to make the best possible use of the money they spend. But there is an important difference. If the word gets out that the American Red Cross, for example, is not making good use of donations, people can shift their contributions to other private chari-

ties that are doing a better job. We don't have this option with FEMA. Instead of getting less money because of its poor performance, FEMA will almost surely get more, with the justification that more is needed to do a better job.

The contrast between the public's response to gas prices after the hurricanes and its response to the cost of government efforts to help the hurricane victims is instructive. The lessons this contrast teaches, if given some thought, are 1) gasoline suppliers were doing a good job serving the public interest because gas prices forced people to accept the harsh realities and motivated them to respond in ways that helped the hurricane victims, and 2) because people had no idea what the government relief effort cost and had no effective way to respond to the cost even if they had known what it was, government did a poor job helping the hurricane victims. Once the fundamental and intractable problems of helping disaster victims by forcing people to fund FEMA are considered seriously, abolishing the agency doesn't seem like such a radical proposal. 

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1. Once the news started reporting on the delays and inadequacies in FEMA's response, I did hear people complaining about its poor performance. The complaints were not about the costs, but about the people and party in charge of the relief effort and how the right people would have done a far better job.

2. Nicole Lewis and Nicole Wallace, "Americans Have Given at Least \$670-Million for Victims of Hurricane Katrina," *The Chronicle of Philanthropy*, September, 9, 2005, <http://philanthropy.com/free/update/2005/09/2005090801.htm>. The Associated Press later reported that \$1.3 billion had been raised privately [www.washingtonpost.com/wp-dyn/content/article/2005/09/28/AR2005092801529.html](http://www.washingtonpost.com/wp-dyn/content/article/2005/09/28/AR2005092801529.html))