

Web Memo



Published by The Heritage Foundation

No. 1126
June 14, 2006

Speeding Reconstruction by Cutting Red Tape

by Nancy Marano and Alison Acosta Fraser

More than nine months ago, Hurricanes Katrina and Rita ripped through the Gulf Coast destroying lives and communities. As Members of Congress continue to explore options for facilitating the ongoing reconstruction, they should consider several basic guidelines, which have been reinforced by the lessons learned so far in the reconstruction process:

- Private entrepreneurial activity, rather than government bureaucracy, should drive the rebuilding process.
- Encouraging private investment in the affected areas is critical to rebuilding.
- Easing or simplifying regulations and eliminating the capital gains tax on investments for affected areas would provide needed opportunities for private sector creativity.
- Congress should reassess priorities and move funds from low-priority uses to the most urgent needs.
- Federal disaster aid and assistance should be provided only in situations that exceed the capabilities of state and local governments and the private sector.¹

Learning from Katrina

The White House's assessment² of the federal response to Hurricane Katrina contained 125

recommendations to improve the national response system to support state and local governments and increase federal capacity to respond to similar disasters. It included recommendations to:

- Create a regional structure of preparedness within the Department of Homeland Security,
- Transform the National Guard with a focus on increased integration with active duty forces for DHS plans and activities,
- Strengthen the public health response, and
- Create a culture of preparedness.³

Immediately after the hurricanes, several government agencies authorized waivers and dispensations to aid disaster relief. In the subsequent weeks, many federal agencies eased regulations to speed recovery. For example, the Department of Homeland Security authorized duty, tax, and fee waivers for items imported for humanitarian purposes. The Department of Education modified rules for providing federal student aid to transfer students. The Federal Reserve issued a waiver to reduce loan processing

This paper, in its entirety, can be found at:
<http://www.heritage.org/research/Regulation/wml126.cfm>

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 · heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

time, and the U.S. Coast Guard issued waivers to speed up repairs in the oil and gas industry. By easing regulations, the federal and private response was significantly hastened.

Congress and state and local governments should learn from this. With thousands of regulations hampering rebuilding efforts, easing regulations would allow communities and neighborhoods to choose if and how best to rebuild.

A Lesson from Northridge

California's response to the 1994 Northridge earthquake, the most expensive earthquake in U.S. history, provides another model for the benefits of easing regulation in the aftermath of a disaster. Following the earthquake, Governor Pete Wilson used emergency powers to suspend targeted regulations and statutes to hasten the rebuilding of Los Angeles' shattered freeway system, the region's economic conduit. Easing the timeline requirements for finalizing construction contracts cut highway reconstruction time from two years to two months.⁴

By waiving certain contracting procedures, the Federal Highway Administration (FHWA) also strengthened the rebuilding process. Shortly after the earthquake, it signed a memorandum of understanding with the California Department of Transportation that approved three rapid bidding procedures for projects that used federal funding. Some of the state's infrastructure projects were also funded through FHWA's Emergency Relief program, which exempted them from regional planning, transportation improvement plan requirements, and air quality conformity requirements. These waivers were all crucial to rapid reconstruction.

Los Angeles' quick recovery presents a clear lesson to policymakers looking for innovative solutions in the post-Katrina recovery. Identifying and easing regulations and statutes that inhibit

reconstruction can mean a dramatically faster and less costly recovery.

A Legislative Proposal

After Hurricanes Katrina and Rita, many proposals for suspending regulation to aid recovery and relief in the Gulf region were introduced in Congress. One of the more promising is Representative Bobby Jindal's (R-LA) proposal to create a Gulf Deregulation Commission. The commission would create a panel of experts to identify regulations and statutes that inhibit recovery and reconstruction or impose restrictions on public sector, private sector, or nonprofit activity. It would then make recommendations to the President, Congress, and the state and local governments on how to address these problems, including suspension of offending regulations for up to 18 months. Heads of the respective regulatory agencies would be allowed to reinstate a suspended regulation only after determining that benefits outweigh the costs. Of course, Congress could change rules by legislation.

Easing the burden of government regulations would allow for speedier reconstruction and reduce development costs. Removing some of the barriers that the private sector must overcome would allow more flexibility for businesses, entrepreneurs, and nonprofits to provide proper and timely assistance.

Conclusion

With over 144,000 pages of federal regulations—on top of state and local regulations—those engaged in rebuilding face onerous rules at every step. Because private sector investment is crucial, Congress should reduce the regulatory burdens that inhibit recovery and provide a disincentive to discourage investment. Removing regulatory barriers would increase flexibility for the private sector to get the job done faster. Representative Jindal's proposal would help to do this.

Even with regulatory relief, reconstruction will be long and difficult, but cutting red tape is an

important step in helping the devastated areas get back on their feet.

Nancy Marano is a Research Assistant in, and [Alison Acosta Fraser](#) is Director of, the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

¹ Edwin Meese III, Stuart Butler, and Kim R. Holmes, "From Tragedy to Triumph: Principled Solutions for Rebuilding Lives and Communities," Heritage Foundation *Special Report* No. 5, September 12, 2005, at www.heritage.org/Research/GovernmentReform/sr05.cfm.

² "The Federal Response to Hurricane Katrina: Lessons Learned", The White House, February 23, 2006, at <http://www.whitehouse.gov/reports/katrina-lessons-learned/index.html>

³ James Jay Carafano and Laura Keith, "Hurricane Katrina Lessons Learned: Solid Recommendations," Heritage Foundation *Web Memo* No. 998, February 23, 2006, at www.heritage.org/Research/HomelandDefense/wm998.cfm.

⁴ Pete Wilson, "Deregulation Not to Blame, But Davis Is," *Sacramento Bee*, June 3, 2001, at www.sacbee.com/static/archive/news/special/power/060301wilson.html (June 1, 2006).