



## Institute for Research on Poverty September 2013 Podcast

### “Natural Disasters, the Poor, and the Louisiana Road Home Program”

Featuring Jesse Gregory and hosted by David Chancellor

[Chancellor] You’re listening to a September 2013 podcast from the Institute for Research on Poverty at the University of Wisconsin-Madison.

For this podcast, we’re going to take a look at how we can think about disaster relief programs and the poor. While natural disasters are not picky about their targets, they can be thought of as having an outsized effect on the poor. Broadly, there are three primary reasons why this is the case. The first is financial—without money in the bank, the poor have less ability to escape the disaster itself and, especially without insurance, a harder time financing a recovery. Second, the poor are generally less mobile—they’re more dependent on public transit and are disproportionately elderly and disabled. The third is because of environmental factors: even in rich countries like the U.S., the poor are more likely to live on marginal land and to live in structures that are more susceptible to natural disasters.

I talked to economist Jesse Gregory about his work on a housing recovery program that followed Hurricane Katrina called the Louisiana Road Home, which has been called the . the largest housing recovery effort in U.S. history. Even though the program wasn’t specifically geared to low-income homeowners, it was generally successful at helping low-income homeowners to repair their homes when other, standing programs hadn’t been. Gregory’s work with this program can offer us insights into not just how we help lower-income people recover from disasters, but how researchers can study the effects of relief programs like this. To start, let’s turn to Professor Gregory to learn more about the Louisiana Road Home program.

**[Gregory] It’s a program that was funded by Congress but—Congress gives money directly, oftentimes to state or local governments and that’s how it worked in this case. So, the State of Louisiana used this federal money to fund a program that paid cash grants to individual homeowners that the homeowners did not have to pay back.**

[Chancellor] But here’s the thing: The program gave owners of damaged homes a choice in the form that the cash grants took:

**[Gregory] They could either use them to repair or rebuild a home that was damaged by the storm or could use the money to relocate somewhere else. And the way the program was structured, the net grant package these households would receive was a little bit more generous if they agreed to rebuild.**

[Chancellor] Before the Road Home program, many owners of damaged homes in New Orleans couldn't get a home repair loan. Although the Small Business Administration had a standing disaster relief loan program, its rejection rate was high. A December 2005 New York Times report found that the administration had received 276,000 applications for these home repair loans. But at that point, only a third of that number had been reviewed and, of those, 82 percent had been rejected—mostly because of credit issues. This gives us the sense that the group of people we're looking at here were largely lower income and likely had much of their wealth wrapped up in significantly damaged homes.

**[Gregory] A few patterns kind of jump out at you when you look at the process of New Orleans becoming repopulated after the storm. One is that in the first year after Katrina, households with more heavily flooded homes came back much more slowly—as you would expect. The areas of the city that were not flooded were disproportionately white neighborhoods for the most part and much higher income neighborhoods. So, because of that, the kind of “first wave” of people going back to the city tended to be more affluent and tended to be more white. By about four years after Katrina, the population that's back is much closer to kind of a cross section of what you had seen prior to Katrina.**

[Chancellor] The Road Home program didn't actually come online until about two years after Katrina. It was in large part a response to standing disaster relief programs' failure to offer much help to a displaced population—particularly lower-income people that didn't qualify for loans. As Professor Gregory indicated, more affluent homeowners were returning to the city before this point and, if their homes had been damaged, most had found other ways to finance rebuilding without the Road Home grants.

**[Gregory] Less affluent homeowners, for whom these Road Home grants were a key piece for financing repair, didn't do these repairs until after the Road Home program came in line. So you see a big disparity in rebuilding rates occur, kind of open up in the first two years after the storm and then that closes during the third and fourth years as these lower income households were able to finance those choices.**

[Chancellor] Although we tend to think of low-income Americans as renters, New Orleans is relatively unique for a large American city in its high rate of homeownership among low-income people. The Lower Ninth Ward, which has been synonymous with the devastation of Katrina—

had a poverty rate of around 36 percent at the time of the storm but a homeownership rate of about 59 percent.

**[Gregory]When households have had this big kind of negative shock to their lives, it's pretty clear that providing them some kind of assistance in the short run – so it could be that they didn't have full insurance, it could be that they have this large repair cost for a damaged home, and then they're not able to get a loan and there are just basic things, like cleanup, that need to be done. So, some sort of intervention is going to be beneficial in the short run, but what economists kind of fear is that if people come to expect that there will always be a bailout after a disaster that more people than otherwise would are going to choose to locate in disaster prone locations.**

[Chancellor] Given this, one of the things that Gregory has looked at is the sort “economic distortion” caused by an expectation of relief in the future. Or, put another way—did people move back only because they thought there would be a bailout in the future or because that's what they would have wanted to do anyway?

**[Gregory]So, what I find is that the program did significantly increase the fraction of homeowners who chose to rebuild in New Orleans. Most of that impact occurred by allowing households who would have wanted to rebuild even if that choice wasn't subsidized but couldn't get a loan to finance that choice—it allowed them to get over that hump and rebuild their homes. A much smaller fraction of households was induced to rebuild when they would have wanted to relocate just because that choice was subsidized.**

[Chancellor] Professor Gregory says that one of the key findings was that households that faced different financial incentives to come back came back at similar rates.

**[Gregory]What that suggests is there aren't many households that are close to the margin—so nearly indifferent between coming back and not. People either really wanted to come back to New Orleans—a smaller number, but some people really did not want to come back and the number who are left, who are close to indifferent, is small. The consequence for the efficiency of these policies is that they don't—at least in the context of New Orleans—seem to generate huge distortions in behavior.**

[Chancellor] Gregory says that in the literature on natural disasters, you don't see a lot of work trying to quantify the impact of disaster relief programs. Instead, most of the research out there looks at impacts of the disasters themselves.

**[Gregory] I think a big part of that is because of the way that disaster relief programs are structured. So, the typical way that people evaluate the effect of a government program is to look at the group that received the program and then look for an otherwise similar group that**

**did not receive the program and kind of compare the two groups going forward and think of one as a treatment group and one as a control group. In the context of disasters, what typically happens is that the disaster relief package is given to the entire affected population. Which leaves you, as a researcher, in a situation where you don't have a control group. So, to study the effect of the programs, what I have to do is use some sources of variation within this treated group to try to infer people's preferences for money or consumption vs. locations and I can use simulation techniques to try to infer how their choice would have been different under alternative policies.**

[Chancellor] Research like Gregory's can give us a better sense of how well disaster relief policies actually work. Measures that can help us see the short and long term effectiveness of disaster relief policies have the potential to help public officials make better, faster decisions following disasters and, hopefully, to mitigate the human suffering associated with these events.

Thanks to Jesse Gregory for sharing this work with us. You have been listening to a podcast from the Institute for Research on Poverty.