

Careless Acts of Corruption:

Disaster relief continually falls into the wrong hands

By *Daniel J. Smith, Ph.D.*

The CARES Act program intended to help small businesses across America has quickly veered into troubled waters. Loan recipients have included large or publicly traded companies such as the [LA Lakers, Ruth's Chris Steak House, and Autonation](#). Companies have been found taking out loans to [fund acquisitions, raise executive salaries, and to resolve Justice Department investigations](#). Early [research](#) finds that less than 15 percent of these funds have gone to businesses in the regions most affected by COVID and that 30 percent of the funds have gone to businesses in the regions least affected by the pandemic.

While this abuse of relief programs during a pandemic is maddening, it is unfortunately not surprising. Public relief from disasters, such as mudslides or hurricanes, is habitually [rife with corruption](#). This is because large amounts of money being allocated by politicians seeking reelection and disbursed with little oversight in a streamlined fashion is a recipe for abuse.

Do politicians really take advantage of public relief during a disaster to enhance their reelection odds? [Research by economists Thomas Garrett and Russell Sobel](#) found that federal disaster declarations and money is often directed to electorally strategic states. In fact, research by political scientist [Andrew Reeves](#) [found](#) that one single federal disaster declaration for a

state can result in over a one percentage point increase in electoral support from within that state. An [early assessment](#) suggests that COVID public relief, including the disbursement of personal protection equipment for medical workers and ventilators, is also being administered in an electorally strategic manner.

Once disaster relief is allocated, it must be disbursed to recipients bureaucratically, adding another opportunity for abuse and theft. [Economists Peter Leeson and Russell Sobel](#) found that each additional \$100 of disaster assistance person in a state measurably increased the state's average corruption by over 100 percent. For example, [\\$700 million of a grant from the Department of Housing and Urban Development to the Louisiana Road Home program simply vanished](#). Homeowners benefiting from the program could not provide documentation demonstrating that they used the public money for elevating and repairing their homes. In another example, New Jersey Governor Chris Christie famously [directed Hurricane Sandy relief funds](#) into advertising and marketing efforts for his reelection campaign. The above-mentioned disbursements of the small business loans from the CARES Act suggest that even a global pandemic doesn't reduce the incentive to misuse disaster relief.

While some of these companies, [like publicly traded Nashville restaurant company J. Alexanders](#), will be returning these loans under public scrutiny, we are





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promised that auditors will review these loans. The problem with the give out and audit later approach is two-fold.

First, there are so many loans being given out, simple resource restraints require that auditors focus on only on large loans. But, even if they focus only on loans over \$2 million, they still must review an approximate 26,000 loans as of April 16. And, some of the worst examples of corruption have come from companies taking out loans less than this amount.

Second, these government audits take so excruciatingly long that justice may never be served. To give you an idea of how slow these government audits can take, [it took FEMA seven years to review disaster-relief grants improperly given to construction companies in Hawaii](#). In another example, [even ten years after Hurricane](#)

[Katrina, auditors were at a loss in uncovering waste and abuse](#).

With an unprecedented \$2 trillion in relief expenditures in the CARES Act, and additional rounds already being considered and approved, we should expect to continue to hear more stories of public relief abuse during the COVID pandemic. And, these stories will surely only represent a small fraction of the total abuse occurring. We should keep these failures in mind as politicians actively plan to expand these programs. The simple fact is that politicians and bureaucrats giving away taxpayer money are far less careful than individuals donating their own money.

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