The Daily Dish

Disasters and Relief

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As the recovery from Hurricane Helene gets underway, we are hearing the usual confused discussion about the impact of natural disasters on the economy and budget.

Regarding the former, the important distinction is between current wealth and future income. Helene is leaving a daunting trail of damage. As a result, business for construction, repair, supply, and other sectors will boom in its wake. This leads some to conclude that disasters are "good for the economy." Wrong. The destruction of homes, businesses, infrastructure, and other assets diminishes the wealth of families, states, and the economy (in addition to the tragic loss of life). This is simply bad news. True, it is somewhat offset by the boom of activity that seeks to rebuild that wealth, but there is no doubt that on balance disasters have an economic cost.

The federal government has programs that seek to both diversify the wealth losses so that they are not narrowly concentrated on the affected regions and individuals, and to more broadly spread the costs of rebuilding. The main agency involved is the Federal Emergency Management Agency (FEMA), and a key part of FEMA is the National Flood Insurance Program (NFIP). Those located in a designated flood zone must purchase flood insurance; the NFIP is the federal backstop to these flood-related losses and serves to distribute the costs of flood damage more widely. (Of note, the NFIP is poorly structured and had to borrow tens of billions from the Treasury, so the losses are effectively spread across all taxpayers.) In addition, FEMA provides emergency housing and other relief services to the affected areas, which further reduce the losses that must be borne by the region.

On the rebuilding front, FEMA has limited funding for repairs and replacement efforts and relief funds for infrastructure. It also can steer individuals to low-interest loans provided by the Small Business Administration. Finally, it is a tradition of Congress to provide "emergency" funding (i.e., funds beyond the annual appropriations) to an alphabet soup of agencies – Army Corps of Engineers, Department of Transportation, Coast Guard,

Department of Energy, and Department of Housing and Urban Development – to provide assistance through their programs. In this way, the federal budget serves to broadly distribute some of the costs of repair and recovery from a disaster in one part of the country.

At present, neither Congress nor the administration is competent enough to put in place the ordinary budgetary affairs for a fiscal year, hence the endless cycle of continuing resolutions and omnibus appropriations bills. In some hypothetical future world, however, it would be nice to plan for such expenses and include in the budget an allowance for the expected (average) disaster spending in the upcoming fiscal year.