The Daily Dish

Post-Maria Puerto Rico

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 25, 2017

Eakinomics: Post-Maria Puerto Rico

The devastation wrought by hurricane Maria in Puerto Rico is horrific. The primary consideration is the loss of life and disruption to families, but there are obvious economic consequences as well. Private capital — homes, factories, businesses — is damaged or destroyed, while infrastructure — electricity, roads, dams, etc. — suffered comparably. What is the path to recovery?

One possibility is familiar from mainland experience with devastating storms like Katrina, Sandy, Harvey and Irma. From a federal standpoint, the key activities are coordinated by the Federal Emergency Management Agency (FEMA), Small Business Administration (SBA), and National Flood Insurance Program (NFIP) that provide financial assistance for infrastructure, businesses, and individuals. More generally, the economy will benefit from a near-term burst of construction-related activity.

However, there is another, relatively unique aspect to the economic adjustment to the disaster. Some reports indicate that power and other basic infrastructure may be unavailable for months. This is a severe headwind to the traditional recovery mechanism, and raises the possibility that Puerto Ricans may choose to relocate to the mainland. As U.S. citizens, migration is relatively easy. This would have impacts on U.S. labor markets and public programs.

Half of Puerto Ricans hold a high school diploma or less. So post-hurricane migration would be an influx of lower-skilled immigrants. This tends to hurt previous immigrants more than U.S. natives because they are in more direct labor market competition with one another. Low-skilled immigrants have been shown to be a complement to U.S. workers, generating additional economic activity and growth in the U.S. without directly competing with U.S. workers for jobs. Furthermore, around 76 percent of Puerto Ricans speak English "less than

very well," meaning that the language barrier would also preclude them from competing with natives for the same types of jobs. A NBER study on the Mariel Boatlift (when 125,000 low-skilled immigrants fled to Miami from Cuba) found that it did not significantly impact the employment levels or wages of natives in Miami due to these reasons.

There is also a Disaster Unemployment Assistance Program that offers benefits for those displaced by disaster and who are otherwise ineligible for Unemployment Insurance (UI). The program provides benefits for up to 26 weeks, but comes with similar job search and verification requirements as the UI program. The catch is that the worker has to be able to document the income from the lost job, so it may offer benefits to a limited number of individuals. A rough estimate suggests that maybe 30 percent of Puerto Ricans might be eligible (roughly 1 million individuals) and would produce a cost of $2 billion. In addition, there might be additional costs to Medicaid; Women, Infants and Children (WIC); Temporary Assistance for Needy Families (TANF); and Supplemental Nutrition Assistance Program (SNAP). Again, rough estimates suggest another $7 billion or so in budget costs, for a total of $9 billion.

These impacts and program costs would be heavily concentrated in a few states like Florida, New York, and Texas. In this regard, the economics are not different than the dislocations that followed, e.g., Hurricane Katrina. These past episodes merit additional study as a guide to one aspect of the Maria experience.