



The Daily Dish

Economic Perspectives on Harvey and Irma

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Eakinomics: Economic Perspectives on Harvey and Irma

The impact of Hurricane Harvey has become clear over the past week and the enormity of the threat posed by Hurricane Irma is becoming more apparent by the hour. So it often comes as a surprise that such storms have not been major macroeconomic events. In the aftermath of Katrina, Sandy, or Harvey there are often short-term price spikes for gasoline, oil and some food products, but there is no great impact on the path of overall inflation. And hurricanes can disrupt the process of measuring jobs and unemployment, making the near-term path of the economy harder to gauge. Katrina, Sandy, and Harvey did not produce a recession, and Irma likely will not either. To the extent the flow of production and income is affected, it is typically a lagged upward boost from companies rebuilding.

Such storms are a major loss of wealth. Homes, hotels, businesses, personal property, infrastructure, and other properties are destroyed. This is an unambiguously bad impact, and the only question is how large it will be after Irma. These wealth losses are shifted across people by a number of insurance schemes. Some losses are socialized through aid provided by the Federal Emergency Management Agency, Community Development Block Grants, Small Business Administration loans, and other government schemes to rebuild damaged facilities at taxpayer expense. In other cases, private insurance shifts some or all of the cost of replacement to the pool of policyholders. There are also public-private hybrids like the National Flood Insurance Program (NFIP) that backstops insurance with taxpayer funds. The basic impact of these efforts is to minimize the extent to which potentially catastrophic losses are narrowly concentrated on a few families in a relatively small slice of geography.

It is important to note that the losses are written in stone. People can build small or large houses. Communities can build seawalls or not. Families can locate in flood zones or live at higher elevations. The dollars that are put at risk are an economic decision, and the public policy objective should be to make sure that such decisions are fully informed by the potential costs of such decisions. That is the underlying concern, for example, with the NFIP and why it would be desirable to [reform](#) the program to eliminate expensive and inefficient subsidies.

Finally, and most important, these storms threaten lives. There are no mechanisms to mitigate these tragedies other than the storm staying offshore or people staying out of harm's way. Let us hope for both.