

An economist's guide to helping victims of Helene, Milton

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With North Carolina still reeling from the aftermath of Hurricane Helene and Hurricane Milton landing in Florida, it is natural to ask: What is the best way to help the victims of these storms, and how can society best protect itself from such damage in the future? As an economist, I realize that I come at these questions with a bit of a different perspective.

First, whenever possible it is better to use private insurance, such as homeowner's insurance and flood insurance, to protect against loss. One of the functions of insurance is to make losers at least partially whole after the fact, but another is to make risky decisions too expensive to contemplate in the first place. *

This second function of insurance is especially important for Florida. The state is vulnerable to storms, so market prices for insurance should be allowed to adjust to higher levels, most of all for vulnerable properties. High prices in an area are a sign that building and renovation should not take place there. With fewer people living in vulnerable areas, the cost of storms will fall accordingly. X

That sounds harsh, but "incentives matter" is the first and primary principle of economics, and sometimes incentives should be allowed to operate. Unfortunately, Florida has a state-run insurer of last resort that continues to bail out homeowners.

Political debates tend to frame this issue as whether to help poor, struggling homeowners. And indeed they may well suffer some terrifying losses because of storms. But whatever you think of such bailouts after the fact, with better incentives ahead of time, that issue will come up less often.

Economists are better at ex ante institutional design than at adjudicating all claims on the public purse ex post. The upshot is that insurance costs need to rise to prohibitive levels in some areas. Even state-run insurers should accept this reality.

A second lesson is that private insurance does not always work. Some risks are so rare that people do not insure against them, or maybe insurance is not available because there would not be enough profit in the market to cover the costs of writing and selling the contracts. Yet ex post, once the true risks of the world are revealed, there is value in providing insurance services. The storm that hit Asheville is an example of this, as such powerful storms have not had much precedent in that area.

In these cases, there is no straightforward economic answer as to how much aid should flow. Storm victims have some claim on public resources, but so do taxpayers. Typically economists will not be able to answer the hypothetical question of how much insurance people would have bought had there been an active market with more accurate risk assessments. We need to be correspondingly modest about our ability to produce a verifiable answer as to the best course of action.

Another principle of disaster relief is that, no matter how generous or competent the response, not everyone can be helped.

Even the best institutions are imperfect, and in some cases it may be difficult or even impossible to assist victims.

At the same time, some victims will be relatively easy to help right away — and some of them will be noncitizens.

Finally, disaster response should not be bureaucratized unduly. Asking for proof of citizenship simply isn't practical: If someone has just lost their home or place to live, they have probably also lost all their important papers. Again, this means that some noncitizens will receive some significant benefits while some citizens will not. It was never going to be otherwise.

We economists have a reputation, mostly justified, as being hardheaded. But in some cases, such as disaster relief, our way of thinking can enable a more humane outcome.

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