

Hurricane Floyd: Economic Boon or Bust for North Carolina?

By: [Andrew Brod](#)

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Article:

A few weeks ago, I saw an interesting story in the News & Record. The first sentence read, “A university economist said Tuesday the state’s economy may be helped by flooding in eastern North Carolina because natural disasters stimulate economic growth.”

Huh? Could it be that Hurricane Floyd and related catastrophes are actually good for the state economy?

The N&R reported that the UNC-Charlotte economist who made this statement expects “the rebuilding of homes, businesses and infrastructure in that area to further enhance economic growth in the state economy in 2000.” So according to him, economic growth in North Carolina will be healthy, but thanks to Floyd it will be healthier still.

On a very simple level, this sounds plausible. Construction is an important economic activity, and healthy state economies generally have strong growth in home and business construction.

But a little thought should convince us that reversing this logic is ludicrous. Spending on construction doesn’t always make us better off. It depends on what we’re building and why.

To put it differently, if hurricanes are so good for us, then why don’t we periodically demolish all of our buildings, roads, and bridges? And why restrict the destruction to eastern North Carolina? We could spread the benefits around the state and we wouldn’t have to wait for a storm to hit.

In fact, we could enjoy the same economic benefits California gets from its many earthquakes, without the expense of trying to alter the tectonic plates beneath us.

Of course this is silly. Nobody would seriously propose that we tear down buildings and infrastructure just so certain industries can profit from the rebuilding. But it’s no different if Nature does the destruction for us. Overall, hurricanes and earthquakes are economic busts, not boons.

An important lesson is that we need to be careful when interpreting the production and consumption statistics used by economists. Economic statistics are valuable tools for public policy-makers, but they sometimes misrepresent our well-being.

Here’s why the measure is a mismeasure in this case. A fundamental concept in economics is that of “opportunity cost,” the cost of an activity in terms of the best foregone alternative. Your opportunity cost of reading this column is the enjoyment you’d gain from your next-best activity, the thing you’d do if you were somehow prevented from reading the newspaper this morning.

Economists claim that opportunity cost governs people’s economic decisions, even though it is often not reflected in actual monetary transactions. Unfortunately, opportunity cost is often hard to measure.

The monetary cost of recovering from Floyd is the amount people are paying to rebuild the buildings and infrastructure. But the opportunity cost is larger, reflecting the fact that folks would have preferred to spend the money on vacations, clothes, toys, cars, etc.

Another option Floyd took away from eastern North Carolinians was saving. Savings don't show up in production and consumption statistics, so when funds are diverted from savings it shows up as increased consumption. It looks like the economy is growing. But I'll wager the people whose savings have been decimated by the flood damage wouldn't describe the effect on their personal situations as "growth."

If anything, the cost of rebuilding eastern North Carolina is not a measure of economic benefit, but of economic losses.

It is true that certain industries, such as construction and home furnishings, will benefit from the storm's aftermath. And if a region were beset by high unemployment, recovery from a natural disaster could serve as a kind of jobs program. But the North Carolina economy is made up of much more than building contractors and furniture dealers. And unemployment is extremely low these days.

True economic growth is more than a blip in some statistics. It defies common sense to claim that the state economy will be better off as a result of our recently departed nemesis Floyd. Speaking as an economist, I hope neither he nor his relatives come back.