Economic effects of natural disasters

Natural disasters cause significant short-term disruptions, but longer-term economic impacts are more complex

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AUTHOR’S MAIN MESSAGE

The economic impact of a natural disaster does not end with physical damage and loss of life. Natural disasters can also affect victims’ employment, health, and migration decisions, with potentially significant long-term repercussions. Well-designed policy can limit such impacts cost-effectively, and there are many policy options available to policymakers, including protective infrastructure, better land-use policy, monetary incentives to reduce risk, and ex-post relief. Understanding the magnitude of and mechanisms behind the short- and long-term effects of natural disasters is an essential first step toward crafting optimal public policy.