ABOUT DR. NOY

Dr. Ilan Noy is an Associate Professor of Economics at the University of Hawai‘i at Manoa. He received his B.A. in Political Science from Hebrew University in Jerusalem and his Ph.D. in International Economics from the University of California, Santa Cruz. Dr. Noy has traveled around the world to speak about his research and published numerous articles. His current research focuses on the reasons for financial crises, the impact of capital flows, and the economics of natural disasters.

How are natural disasters and economics related?

A natural event, such as a storm or an earthquake, is a disaster because it hits a population. For example, a hurricane that goes over a deserted island is not a natural disaster. A hurricane that goes over Honolulu is a disaster. Any natural disaster is deeply intertwined with the economy—with the way an economy is structured, with the way people prepare for a disaster, with the way people deal with the disaster aftermath and extent of destruction. For example, in January 2010, an earthquake hit offshore in Haiti, killing almost 240,000 people. A month later, there was a stronger earthquake off the shore of Chile and the earthquake killed 400-500 people. So, why is that? It’s not because the natural event was very different; it’s because of the differences in economic and political structures and the historical development of both places.

How do disasters affect a country’s prospects for growth? Are these effects different in the short and long run?

The effects differ between developing and developed countries. For a developing country, there are adverse short term macroeconomic impacts. In general, developing countries cannot recover as quickly because they don’t have the resources to rebuild quickly. In the case of Haiti, it took almost a year and a half, and still many people are living in temporary structures and only about 25% of the debris from the earthquake has been cleared. The country doesn’t have the resources and capacity to do something about it. Although there are adverse short lived (1-2 years) consequences of a disaster, the long term effects are less clear-cut for developing countries. Dr. Noy argues that there may be long term adverse effects because of that lack of capacity for reconstruction. In Haiti’s case, even the meager infrastructure they had prior to the disaster was destroyed and it will take many years to rebuild.

In contrast, most natural disasters in developed countries are fairly small, relative to the size of the economy. For example, even something as dramatic as Hurricane Katrina had virtually no impact on the U.S. economy. It did, however, have a deep impact on the economy of New Orleans but no significant impact beyond that region. The economic impact for developed countries is regional rather than national.

Do you think the earthquake that happened in Japan recently will boost their economy since it has been stagnant over the years?

They are willing to spend a lot of money on reconstruction, so GDP will receive a short term boost. There has been a decrease in GDP growth in the first and second quarters because some firms stopped production for a while and others are still not producing at full capacity. The last two quarters of the year will also see an increase in GDP as a result of the reconstruction. In the long term, it’s not going to have a positive effect on Japan’s economy; it’s most likely not going to create a dramatic change. In some cases, very large disasters can generate institutional and political changes that do have long-term and dramatic impacts on economic development. In Dr. Noy’s judgment, however, this is unlikely to occur in this case. A new Japan” will not emerge.
The economies in the Asia-Pacific region account for over 55% of the world’s GDP yet experience over 70% of the world’s natural disasters. What do you propose the economies do to minimize the potential impact of a disaster?

Preparedness is key. Japan is one of the most prepared countries for earthquakes and even they were surprised by the tsunami that resulted from the March 2011 earthquake. For example, Japan has a system which provides advanced warnings of earthquakes. Earthquakes generate two types of waves: a faster wave that is not so damaging (P-waves) and a slower wave that is much more destructive (S-waves). Japan’s warning system identifies the P-waves, and therefore provides a brief buffer time before the destructive S-waves arrives. This allows the authorities and individuals to take whatever actions are need and possible. Warnings are also broadcasted on television to notify and warn the public. Japan has the most comprehensive warning system, and the region is underinvested in emergency preparedness.

Asia-Pacific economies are also not well prepared to deal with the aftermath of a catastrophic event. Japan’s recent experience clearly demonstrates that when one examines the details surrounding the nuclear failure in Fukushima Daiichi.

Why do countries place so little importance on emergency preparedness?

Studies have clearly shown that voters do not penalize politicians for being unprepared for a disaster, but do penalize them if they don’t mobilize resources effectively in the aftermath (and reward them if they do). Thus, politicians have less incentive to invest in prevention and preparedness.

APEC has a working group focused on emergency preparedness. What direction should this group take?

Emergency preparedness, for the most part, is done on a national level. Some issues, like coordination, should be done on a regional level. For example, an earthquake warning system should be coordinated within the region, and APEC should concentrate on similar multilateral efforts. In addition, the countries that are relatively well-off should assist poorer countries in prevention and education.

Could you speak a little about your research? What were some surprising findings?

Kauai, one of the Hawaiian islands, was hit by a hurricane in 1992, and, together with a colleague, Dr. Makena Coffman, we found the event led to emigration away from Kauai. The island’s population today is about 15% lower than it would have been if the hurricane had not occurred.

Another surprising finding was that although there is usually a large, dramatic outpouring of aid, it is never sufficient. The numbers that you read in the press are usually widely exaggerated and larger than what the country actually ends up receiving as additional aid. To some extent, it’s because some countries pledge to give aid and end up not delivering or because they are just reclassifying aid that they were already providing before. Because the aid is never sufficient for the least developed countries, the physical infrastructure cannot be entirely rebuilt and disasters are thus expected to be very damaging to the economy.