

Hurricanes and a Florida Economist: Observations on the Economy from the Eye of Wilma

Six hours in the eye of Wilma. Shuttered in a cocoon of aluminum storm panels, wondering if they will hold. Blinded to the sights but not the sounds of Wilma's fury, worrying as the pitch of her howling winds intensify while muffled thumps and sharp clangs punctuated her piercing progression. Anxious but hopeful about what we would find in her wake, and wishing to high heavens I'd brought the barbeque grill inside.

That's how a few million of my fellow Floridians and I spent the long morning of Monday October 24. I've experienced the fringes of a few hurricanes during the 21 years I've lived in South Florida; researched, talked with the media, and written (as recently as last month's *Commentary*) about their economic effects; but until Wilma, had never been in the eye of a such a storm and seen first hand the aftermath.

Young economists are warned early on about generalizing their personal experiences to the economy as a whole. It's called narrow framing and the advice should be heeded. But, in the several days since Wilma struck I've witnessed, observed, and been part of any number and types of activities that I think also speak accurately about the broader Florida society and economy. With your indulgence, I will generalize my personal experiences to our economy as a whole.

Our Diverse Population Is a Source of Economic Strength.

My neighborhood mirrors Florida's increasingly diverse population. My immediate neighbors hail from Boston, Cleveland, Cuba, Ft. Lauderdale, Jamaica, India, Miami, New York, and Taiwan. They range in age from 30 something to 70 something; have children at home or are empty nesters; several are business owners and others work as corporate managers, wholesalers, physicians, and engineers.

I've just learned all this in the last few days as we've tirelessly worked together to recover from the storm. Maybe it was the urgency of the common interest that brought us together. Pre-Wilma, perfunctory waves as we pulled out of our driveways were the norm. Instead, I'd like to think it was Bagwi, the physician originally from India, who brought out coffee and tea for us all. Or maybe it was Fred, the engineer from Miami, who showed us how to rig car batteries to small electric appliances. Or maybe it was Donna, who moved here from New York, who shared the one cell phone that worked and organized a highly efficient message center. Or maybe it was Miko, the businesswoman who emigrated from Taiwan 25 years ago, as she opened her house to her employees who had lost theirs.

Omar, the businessman who came here from Jamaica more than 25 years ago and went house-to-house cleaning up debris, summed-up one key reason why we came together: "If you come here from somewhere else success requires that you make a commitment to be a Floridian. You can't make it with one foot here and the other in another country (or state)."

Entrepreneurship Is Alive and Well, and Vital to Our Economy.

Sean and David stopped in front of my house on Tuesday. Sean normally works as an electrician, and David repairs appliances. They were offering to remove trees. We desperately needed screened patio enclosures torn down, disassembled, and removed. After a quick inspection and a brief negotiation they were in the screen removal business. By the end of the day the backs of our houses were safe; Sean and David had a lot of scrap aluminum to sell at \$0.30 per pound, and had received a fair fee for their valuable service. Oh, they also took checks rather than cash.

Peter, three of his six children, and two strangers he offered work to showed up on Thursday. Tree removal was now our priority. Peter remodels homes but has turned temporarily to the tree removal business. He quoted such reasonable prices that I was at first hesitant, fearing a scam. The deal was sealed when



A typical backyard scene (mine) right after Hurricane Wilma hit Coral springs.



Peter the Entrepreneur, his sons and crew a few days after Wilma. Note the pile of tree debris.



My Street right after Wilma (note the fallen trees & water).

Peter commented, "I want to teach my kids the value of hard work." For the past three days they have worked from dawn to dusk, getting better every day. Word has spread and they have even more business. Neighbors want Peter to remodel their homes in the post-Wilma world.

Peter, Sean and David are just a few of countless examples of how honest entrepreneurs improve our lives, their lives, and boost the overall Florida economy in the process. Their flexibility, sense of opportunity and work ethic make Florida vibrant. To be sure some scam artists are trying to take advantage of the post-Wilma recovery, but my sense is they are far and few between compared to the real entrepreneurs I've met in the last few days.

Markets Work for Our Benefit, Even in Chaotic Situations.

Publix, Winn-Dixie, Pizza Time, Walgreen's, and many, many other stores were up and running on a limited basis early Wednesday. It was a strange experience being in dimly lit stores. Sure, they want to sell groceries, pizzas, fill prescriptions, etc. and earn a profit doing so. Sure, their employees who could and did show up for work, like Dena the smiling Publix employee who gave my wife her usual hug, want to earn their paychecks.

I didn't notice any price gouging at any of these establishments. In the process of pursuing an honest profit they have helped to keep us fed, improve our health, and repair our houses to name just a few benefits markets provide. It reminded me that Adam Smith, the founding father of modern economics, was once again generally right when he wrote more than two hundred years ago that the beauty of a market economy is that honest individuals working in their own self-interest produce results that are in the public interest.

Personal Responsibility and Public Responsibility.

There were some snafus Tuesday and Wednesday with some of the federal, state, and local responses to Wilma. At the same time there were some heroic public sector responses. It raises the age-old question that often we don't want to address: where is the line between personal and public responsibility? For those unable to either prepare for or recover from a Wilma we all agree that some form of community response is warranted and beneficial. At the same time it appears that more than a few South Floridians who were able to prepare for Wilma did not for whatever reasons.

Taking the time and spending the money to prepare for a hurricane is an acknowledgement that something terribly unpleasant could happen. Something so unpleasant that perhaps we'd prefer to 'bury our heads in the sand,' wish it away, plan on the public sector to come to our rescue, and get frustrated when the public sector response is not immediate and all-encompassing. There is a natural tendency, called the moral hazard problem by economists, to assume less and less personal responsibility for our actions when there is more and more public responsibility for our actions. Finger pointing when expectations are not realized is inevitable.

Hurricanes are at times so massive and their destruction so widespread that organizations of enormous size and scale, with their accompanying complexities, may probably be best suited to deal with them. We have assigned substantial responsibilities in these regards to our public sectors under the heading of public safety. But just like new ideas, concepts and models for keeping the public safer are being discussed and debated perhaps we can all one day benefit from innovative ideas, technological advances, and new organizational structures in preparing for and recovering from hurricanes.

Dealing with Lines and Queues: Gasoline at \$15 per Gallon.

Getting electricity restored and gasoline stations operating are two of the most pressing needs as I write. I wonder if I should be angry at Enron, the scandal-failed Houston energy company, in terms of quicker electricity restoration. A few years ago I read where they had been developing innovative energy production and distribution methods, some of which might have been employed in South Florida. Otherwise, FP&L appears to be doing a miraculous job.

The price of gasoline has soared after Wilma as few service stations have the electricity necessary to operate their pumps. Pump prices are little changed but when the costs of hours spent waiting in line are added to the mix, my crude estimate is that people are paying something like \$15 per gallon! Waiting in line is rarely an efficient way of allocating our scarce resources.

There is already talk of legislation mandating service stations to buy and install generators. This would be like a tax on these businesses, not only requiring a potentially expensive outlay on their part but also requiring scarce resources for such things as generator inspections and enforcements. I wonder if the problem might be better solved if gasoline stations and their customers have better motivations and incentives. Would station owners be more inclined to have generators if customers voluntarily formed something like a club or cooperative, paid a small annual fee to the station owner, and agreed to buy their gasoline from her or him in good times as well as bad ones? The rush to mandate solutions is strong and understandable, but the most obvious solution may not be the most effective one.

An Optimistic View on the Florida Economy.

The four southeast Florida counties of Monroe, Miami-Dade, Broward, and Palm Beach account for roughly 30 percent of the state's population, and close to a third of all its jobs and personal income. Wilma has given us in this part of the state's economy a beating- an adverse shock as I called it last month - and I expect to see beginning in the November data a rise in the unemployment rate and a sharp slowdown in income growth. Some businesses will not reopen. How many remains to be seen. The prices for some goods and services have already spiked and will remain high for a while. And, as I wrote in the August *Commentary*, a hurricane of this size might just prick the residential real estate bubble.

But, as I also discussed with you last month, within a year of the four 2004 hurricanes that hit Florida the most affected areas had more than recovered. Their economies are even stronger than before the hurricanes. Often the replaced and repaired homes, buildings, schools, and hospitals are better and stronger than the damaged and destroyed ones. There is every reason to expect this type of robust recovery for South Florida, especially given the entrepreneurial spirit, the market and corporate responses, and the strengths of our diverse population I have seen in the last few days.

Of course there are some people who are not optimistic. Maybe our booming population growth will slow somewhat. Some people might pack it in and leave for what they consider to be greener pastures. Some people did this after Andrew in 1992. I just wished I had purchased real estate in south Miami-Dade then.

Omar, my neighbor who originally is from Jamaica, got it right. Those of us with a commitment to Florida and a willingness to honestly work together will not only survive but also have boundless opportunities to prosper in the years ahead. For now, however, we're going to Mary's house. She's our neighbor who moved here from Boston to escape the bitter cold winters. She's made chowder for us all.

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