

Hurricanes, Mitigation and Capital Formation*

Haaris Mateen[†]

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Abstract

A number of recent papers have investigated the impact of hurricanes on economic growth. However, there is limited understanding of the investment component of local growth after hurricanes. Using hand collected and web-scraped statutory property tax rate data in the U.S., I find that local governments respond to hurricane impact by raising tax rates. I find the hike in tax rates is persistent for 3-4 years after hurricane impact. The response is four times larger for major hurricanes compared to minor hurricanes. However, the out-migration effect from tax rate hike is small because federal capital loss subsidization reduces the burden faced by local residents, distorting their incentives to migrate. I supplement these findings with a novel data set of firm facility-level hurricane impact. I find that firms initially decrease investment in the quarter following hurricane impact and increase it in the final quarters of the second year after impact. Taken together, my paper presents a novel set of stylized facts on government and firm mitigation investment response that can be interpreted in light of recent general equilibrium models with disaster risk.

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[†]Columbia University. hm2692@columbia.edu.