

Living in Disaster-Prone Areas: The Need for Informed Decision-Making

Professor John Freebairn
University of Melbourne

FEBRUARY 2024

doi.org/10.33548/SCIENTIA998



BUSINESS, ECONOMICS
& FINANCE

 Scientia





Living in Disaster-Prone Areas: The Need for Informed Decision-Making

Exploring the complexities of residing in disaster-prone areas is challenging for individuals, businesses, and governments. **Professor John Freebairn** of the University of Melbourne is shedding light on this process, and notes that the benefits of living in disaster-prone areas often outweigh the potential risks. As governments intervene with financial incentives, infrastructure development, and regulatory measures, finding an appropriate balance between short-term relief and long-term resilience is crucial. Professor Freebairn considers the roles of government, information, insurance strategies, and subsidy consequences.

A Challenging Dilemma

Inhabitants of various regions often face the dilemma of whether to live in areas known to be prone to extreme weather variation and natural disasters, such as floods, cyclones, drought and bushfires. Natural disasters can inflict a range of adverse effects, including loss of life, assets, and income.

However, Professor John Freebairn of the University of Melbourne has shown that the decision to reside in these locations involves a complex interplay of factors beyond mere geographic considerations, including lifestyle preferences and the perceived benefits of the area. Specifically, these decisions involve a nuanced evaluation of property costs, lifestyle advantages, and potential disaster-related expenses.

The Advantages of Living in Disaster-Prone Areas

People often choose disaster-prone areas due to lifestyle preferences or business advantages. Individuals often opt for disaster-prone areas due to scenic landscapes, proximity to essential services, or economic opportunities. Lower property prices in these regions may offset the increased disaster-related costs, leading individuals to actively invest in mitigation and adaptation strategies.

The decision-making process involves weighing the benefits of the natural environment, economic opportunities, and community aspects against the potential risks. The lower property costs in disaster-prone areas often act as a compensating factor, making these regions attractive despite their vulnerability. Thus, the benefits of these regions may

outweigh the potential risks, leading to voluntary choices that expose individuals to the uncertainties associated with natural disasters.

The Importance of Government Economic Policies

According to Professor Freebairn, government economic policies play a significant role in influencing decisions about living and investing in disaster-prone areas. These policies exert influence on individuals and businesses. Indeed, they aim to address the consequences of natural disasters, creating a delicate balance between short-term relief and long-term community resilience and society costs.

Government interventions may include financial incentives, infrastructure development, and regulatory measures designed to lower the impact of natural disasters. Government involvement extends to decision-making, infrastructure funding, information provision, and emergency responses, with various forms of financial assistance for households and businesses affected by natural disasters. The challenge lies in finding an equilibrium that addresses immediate needs without compromising the overall resilience of communities over time.

The Role of Government in Information and Infrastructure

Governments play a vital role in providing essential information about the probability and timing of natural disasters. This information aids individuals and businesses in making informed decisions regarding location and



investment. Meteorological data, probability distributions, and early warning systems are essential components of the information provided by governments. This information has public good properties and would be under-supplied if left to private sector decisions. Access to accurate and timely information empowers communities to prepare for and respond effectively to natural disasters, influencing long-term decision-making.

Government interventions extend to infrastructure investments, ensuring that projects such as levees and emergency services are in place to enhance community resilience in the face of natural disasters. Investments in resilient infrastructure contribute to the overall preparedness of communities. Clearly, levees, early warning systems, and well-equipped emergency services play a crucial role in minimising the impact of natural disasters and facilitating a swift recovery.

Insurance and Income-Smoothing Strategies

When severe natural disasters strike, individuals and businesses face short-term income losses and damages. Insurance and income-smoothing strategies are common responses to manage these challenges and ensure financial stability during such challenging times. Insurance serves as a financial safety net, covering losses and facilitating recovery. Additionally, individuals may adopt income-smoothing strategies, such as setting aside funds during prosperous times or arranging for financial assistance to bridge the gap during periods of income loss.

Calls for Government Support: Striking the Right Balance

In the aftermath of a natural disaster, there are often calls for additional government support. Government support may come in the form of direct income grants, subsidies to support the repair and replacement of destroyed and damaged property and foregone income, or relaxed means tests for existing social security payments. The challenge lies in providing immediate relief without creating long-term dependencies or distorting incentives for responsible decision-making.

Unintended Consequences of Special Subsidies

Special subsidies may include one-off, non-means-tested payments, interest rate subsidies, or assistance for repairing and replacing damaged property. Direct subsidies provided by the government to compensate for short-term losses may inadvertently encourage more people to live in disaster-prone areas. While these subsidies provide immediate relief, they can reduce incentives for investments in mitigation measures and adaptation strategies.

Equity, Efficiency, and Long-Term Consequences

Professor Freebairn observes that providing subsidies beyond existing social security measures can have long-term consequences. It may hinder industry restructuring, increase the costs of future disasters, and perpetuate

“

‘Special subsidies may include one-off, non-means-tested payments, interest rate subsidies, or assistance for repairing and replacing damaged property.’

Professor John Freebairn



cycles of inequity. As subsidies incentivise individuals with lower incomes and wealth to settle in natural disaster-prone regions, the long-term result is an exacerbation of inequality, given that such areas already tend to have a higher concentration of individuals with limited financial resources.

The delicate balance between short-term equity and long-term efficiency requires careful consideration. While addressing immediate needs is crucial, policymakers must also evaluate the long-term impact of subsidies on community behaviour, resilience, and the overall efficiency of resource allocation.

A Call for Informed Decision-Making

As individuals, businesses, and governments navigate the complex landscape of natural disasters, informed decision-making becomes crucial. Striking the right balance between short-term relief and long-term resilience is key to building sustainable and equitable communities in the face of environmental challenges.

Informed decisions encompass understanding the risks, leveraging available information, and actively participating in mitigation and adaptation strategies. Building sustainable and resilient communities requires a collective effort where individuals, businesses, and governments collaborate to create a harmonious balance between economic prosperity and environmental considerations.

MEET THE RESEARCHER

Professor John Freebairn, Department of Economics,
University of Melbourne, Australia

Professor John Freebairn has held the position of Emeritus Professor in the Department of Economics at the University of Melbourne since 2022. He is an applied microeconomist and economic policy analyst with current interests in taxation reform and environmental economics. Professor Freebairn holds degrees from the University of New England and the University of California, Davis. From 1996 to 2021, he was based at the University of Melbourne, undertaking roles including Head of the Department of Economics and Director of the Melbourne Institute. His earlier academic career included university appointments at Monash University, La Trobe University, and the Australian National University. He also worked for the Business Council of Australia and the New South Wales Department of Agriculture.



CONTACT

j.freebairn@unimelb.edu.au

fbe.unimelb.edu.au/economics/our-people/honorary_staff/profiles/john-freebairn



FURTHER READING

J Freebairn, *Natural disasters and economic policy challenges*, *Australian Economic Papers*, 2023. DOI: <https://doi.org/10.1111/1467-8454.12291>



THE UNIVERSITY OF
MELBOURNE



Find out more at scientia.global