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Bad for Taxpayers and Whales

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Congress created the National Flood Insurance Program in 1968 as a way to reduce the expense of federal disaster assistance. The idea was that those choosing to live in harm's way should contribute ahead of time to their own assistance. Instead, the program has grown into a disaster of its own, currently \$18 billion in debt.

The dirty little secret of federal flood insurance is that one of its largest beneficiaries is the private insurance industry. Rather than compete with the private sector, the program pays the private sector to administer the program — about a third of the total budget goes straight into the industry's pocket — leaving taxpayers to bear the risk.

Putting flood insurance completely into the private market might actually reduce costs, even in the absence of a subsidy. Disputes arise after every hurricane over whether damage is caused by flood or wind. The existence of the National Flood Insurance Program allows both insurers and state insurance commissions to avoid the obvious solution of private policies that combine both flood and wind coverage.

It would be bad enough if the harm done by the flood insurance program were inflicted solely upon the taxpayer, but another victim of the program is the environment. The National Marine Fisheries Service has found that the flood insurance program is pushing orcas and several runs of salmon towards extinction.

The destruction of Gulf Coast wetlands, which had acted as a buffer from hurricanes, magnified the impact of Hurricane Katrina. We can debate the role of Washington in protecting the environment, but at a minimum we can all agree we should not be actively subsidizing its destruction with tax dollars.

By underpricing flood risks, the government gives people an incentive to live in flood-prone areas. The flood insurance program not only places the environment in harm's way, but does the same to the very people it attempts to benefit. By under-pricing flood risk, the program makes it cheaper to live in a flood plain than it would be otherwise. Unquestionably, that distortion gives families who would not have done so an incentive to live in the path of a potential flood.

If we should have learned one lesson from the financial crisis, it is that gross under-pricing and the subsidization of risk will result in individuals making choices that will harm them and taxpayers. We must begin today to roll back the various subsidies toward housing. The National Flood Insurance Program is an easy and reasonable place to start.