End Federal Flood Insurance
By JUDITH KILDOW and JASON SCORSE
Monterey, Calif.

IT'S no surprise that it can be very expensive to live near the ocean. But it may come as a surprise to American taxpayers that they are on the hook for at least $527 billion of vulnerable assets in the nation’s coastal flood plains. Those homes and businesses are insured by the federal government’s National Flood Insurance Program.

You read that right: $527 billion, which is just a portion of the program’s overall liability of $1.25 trillion, second only to Social Security in the liabilities on the government’s ledgers last year, according to government data.

The flood insurance program was created by Congress in 1968 to fill a void: because of the risk, few carriers provided flood insurance. Now, private insurers offer flood insurance in a partnership with the government — but taxpayers shoulder all the risk. It has turned out to be a bad bet. The program is $18 billion in debt, a sum the government acknowledges probably will never be paid back by premiums, and it is likely to need a new multibillion-dollar infusion to pay claims from Hurricane Sandy. It is long past time for the government to stop subsidizing home and business owners who live and build in dangerous flood zones.

Homeowners and businesses should be responsible for purchasing their own flood insurance on the private market, if they can find it. If they can’t, then the market is telling them that where they live is too dangerous. If they choose to live in harm’s way, they should bear the cost of that risk — not the taxpayers. Government’s primary role is ensuring the safety of its citizens, so the government’s subsidizing of risky behavior is completely backward.

Between 1978 and 2011, the program, which is run by the Federal Emergency Management Agency, paid out more than $24 billion in claims in the coastal flood plain. Total losses paid out for Hurricane Katrina alone exceeded $16 billion. FEMA says it is too soon to say how many claims will be filed for Hurricane Sandy-related damages, although The New York Times reported this month that early estimates suggest that this storm will rank as the second worst for claims paid out, with the cost possibly reaching $7 billion — at a time when the program is allowed, by law, to add only $3 billion to its debt.

The bottom line is that the flood insurance program is a fiscal time bomb for the government.

We should phase out the program, begin thinking strategically about how to shift populations away from the most risky coastal areas, and use the best available science to update the woefully out-of-date coastal-zone risk profiles that government agencies currently rely on to determine danger. We also need to encourage more stringent building codes that take into account the full range of climate risks. (Officials in New York and New Jersey this week estimated the overall costs of Hurricane Sandy in the two states at a combined $72 billion.)
Two major reinsurers, Munich Re and Swiss Re, have strict building codes for policies in coastal areas and will not insure properties in high-risk zones. Florida now self-insures for hurricane wind damage, and has the Florida Hurricane Catastrophe Fund for insurers whose funds are exhausted. The program is financed by a surcharge on all homeowner and commercial insurance policies, but because of the potential for huge liabilities in a future storm, the program might fall short of the money it would need.

We do not underestimate the complexity and political difficulty of phasing out a popular program like national flood insurance, nor do we think the government should abandon people who are currently insured. But Congress and the president should challenge the status quo and make some tough decisions, like providing subsidies or buyouts to encourage people to move out of the most disaster-prone areas, and eliminating other government incentives that support living in high-risk areas.

Some Americans want to live as close to their beloved coasts as they can, but coastal landowners should pay the full cost of living in these dangerous areas. In this climate-constrained world our quality of life will take some hits. But with careful planning and a gradual shift away from the coast, Americans can still enjoy the beauty and live safely, yet escape the cycle of catastrophe and response, in which so much money is expended on properties that are repeatedly flooded.

Judith Kildow directs the National Ocean Economics Program at the Monterey Institute of International Studies, a graduate school of Middlebury College. Jason Scorse is an associate professor of economics at the institute and directs its Center for the Blue Economy.