# A Flood of Good Intentions

## How to Fix the National Flood Insurance Program

The National Flood Insurance Program (NFIP) seems like a program built on reasonable motives, explains Peter Van Doren in "The National Flood Insurance Program: Solving Congress's Samaritan's Dilemma" (Policy Analysis no. 923). It is difficult for private insurers to cover the risks of flooding, where a single highly clustered event can cause immense damages, either bankrupting insurers or requiring very high rates. On the other hand, subsidizing encourages building in flood-prone areas, offloading the risk onto taxpayers.

After a long history of ad hoc congressional appropriations, in 1968 Congress attempted to strike a balance with the National Flood Insurance Program. As Van Doren notes, policymakers "face the Samaritan's dilemma: either render aid after a catastrophe or else withhold aid to encourage people in calamity-prone areas to purchase disaster insurance, take preemptive measures to reduce losses, and build robust private charity systems." The NFIP was supposed to solve this problem while ensuring that insurance was available but also charging actuarially fair rates, intended to avoid taxpayer subsidies and eventually discourage building on frequent floodplains.

That was the idea. In practice, political incentives have made it difficult for Congress to avoid doling out subsidies. Some buildings were grandfathered in at discounted rates, with the intent that this accommodation would be phased out over time, but rules have been creatively interpreted to stretch these discounts long beyond their intended time frame. Requirements that localities adopt certain zoning restrictions and building codes for high-risk flood zones have proven to be an inapt counterbalance. And the rules of the program itself require actuarial rates based on only floods with a 1 percent or greater annual chance, leaving much of the risk not reflected in the rates charged and in effect backstopped by the Treasury. The result is that taxpayers remain on the hook and development has not moved away from flood-prone areas as intended.

"How much do federal taxpayers subsidize flood insurance?"

In 2012, Congress attempted to address some of these problems with the Biggert-Waters Flood Insurance Reform Act, with the goal of phasing out taxpayer-subsidized discounts and charging rates closer to what is required by the real actuarial risks. That reform soon became untenable when later that same year, Hurricane Sandy ravaged New York and New Jersey, with property owners facing a sharp increase in rates because of both the reform and the recalculated flood risks. So Congress relented under the political pressure, passing another law to partially restore the cheaper taxpayer-subsidized rates with the 2014 Homeowner Flood Insurance Affordability Act.

How much do federal taxpayers subsidize flood insurance?

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ing Paper no. 132). Expanding bank-like regulations to non-bank institutions, as many have advocated, would not have actually addressed the root causes of the financial turmoil.

## INEFFECTIVE INTERVENTIONS

The collapse of the U.S.-backed government in Afghanistan after two decades of war felt like a catastrophic defeat for the U.S. policy of nation-building and military intervention. But was Afghanistan an outlier? In **"When Interventions Fail: Lessons from the U.S. Experience in Latin America"** (Research Briefs in Economic Policy no. 289), Leticia Arroyo Abad and Noel Maurer consider a number of U.S. interventions in the Western Hemisphere, analyze their long-term effects, and find a sober lack of beneficial gains to be had.

## GET HOME SAFE

Ridesharing apps like Uber have long been defended on the intuitive basis that they reduce drunk driving accidents. In **"Uber and Alcohol-Related Traffic Fatalities"** (Research Briefs in Economic Policy no. 288), Michael L. Anderson and Lucas W. Davis conduct a first-of-its-kind study using proprietary Uber ridership data to estimate the effect. They find that ridesharing reduces total U.S. alcohol-related traffic fatalities by 6.1 percent and reduces total U.S. traffic fatalities by 4 percent.

## ON THE MARGINS

The United States has a bewildering range of transfer and welfare programs, subject to endless tinkering by policymakers. Can change, in and of itself, harm current beneficiaries? That depends heavily on labor market factors and the nature of the programs in question, as explored by Jeffrey Clemens and Michael J. Wither in **"When Is Tinkering with Safety Net Programs Harmful to Beneficiaries?"** (Research Briefs in Economic Policy no. 290).

## *W* IS FOR WARY


Expanded preschool programs are perennially popular, but do the much-touted educational benefits stand up to scrutiny? There are reasons to doubt it, according to Colleen Hroncich in **"Universal Preschool: Lawmakers Should Approach with Caution"** (Policy Analysis no. 924). "Children are not widgets," she reminds legislators who too often forget it. ■

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from social coercion. The tyranny of the majority, he called it. Madison worried about the same thing. John Stuart Mill worried about it. Turns out, however, it can be tyranny of the minority. Even relatively small groups of people that are ready to whack you online, demolish your reputation, and flood the search engine so that you're labeled a racist.

The first thing a potential employer sees is demands that you be fired. Even small minorities of people can make life a living hell for dissenters and cause a widespread chilling effect. And at the moment, two-thirds of Americans say that they are chilled. That they are reluctant to state their true beliefs about politics for fear of social and professional consequences. Two-thirds, and it's also about 60 percent of students on campus. It's hard to compare, but from the best evidence, that's about four times the level of 1953, the height of the McCarthy era. One reason for this is that in the McCarthy era, there were a couple of things you couldn't say and you could otherwise be pretty safe. In the canceling era, you don't know when you're safe and when you're not, and that's on purpose. They want to make us our own policeman so that we're always afraid that we'll step on a new land mine.

So we now have both the widespread chilling problem and the disinformation problem. We have severe stresses on the epistemic environment, our ability to sort truth from falsehood. And they're not problems that are within the traditional bounds of how we think about free speech. So this book in a way is a ladder up to the next kind of conversation that is now beginning. ■

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According to estimates by the Federal Emergency Management Agency, policyholders pay somewhere between 40 and 60 percent of the full-risk price. The consequence isn't only a bad deal for taxpayers but is also the exact moral hazard Congress had been trying to avoid. When people don't have to bear the full cost of the risk, the result is excessive building in risky places.

In recent years, for the first time in a century, private flood insurance has appeared on the market. Unfortunately, this development appears to be largely the effect of cross-subsidies from the NFIP, rather than a true market development. Unless and until a real market develops, the NFIP should refocus on its stated goals of avoiding subsidies and ensuring that the risks are internalized for property owners.

"The NFIP was an important decision by Congress to move away from providing ad hoc disaster aid to flood victims at taxpayer expense," concludes Van Doren. "But lawmakers' commitment to a subsidy-free system has been imperfect from the beginning, and they have backslid further from that in recent years. The NFIP needs to reembrace the goal of insureds paying actuarially fair premiums." ■