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# Uncle Sam's Flood Machine

BY JAMES BOVARD

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When NASA's *Pathfinder* spacecraft landed on Mars in 1997 and sent back pictures showing that the planet was once flooded, comic Alan Ray quipped: "Of course, Mars lacks the one factor that makes high waters on Earth so much more devastating. Mars has no FEMA."<sup>1</sup>

The National Flood Insurance Program (NFIP) is the Federal Emergency Management Agency's crown jewel. Unfortunately, the heavily subsidized insurance bribes people to scorn common sense, damages the environment, and creates staggering liabilities for taxpayers. Federal flood insurance illustrates how selling at a loss can be politically profitable. The horrendous damage from Hurricane Katrina in late August is in part a tribute to the folly of politicians "managing" risk. This is one more reminder why people should not trust the government to save them.

At the time that the United States was founded, there was no expectation that federal bureaucrats would compensate people for flooded basements or washed-away front porches. Until 1917 disaster response was handled almost entirely by state and local governments and by private charities. In that year President Wilson pushed through a bill to provide limited federal aid for flood relief. Unlike nowadays, there was no "automatic pilot" system that allowed the president almost unlimited discretion and control over disaster spending. Disaster relief proved a popular pork barrel, and aid was gradually expanded over the decades.

The NFIP was created in 1968 to lower the costs of federal disaster assistance. Politicians at that time claimed that selling federal insurance for flood damage would help cover the cost of repairing and rebuilding after floods.<sup>2</sup> Instead, Uncle Sam's subsidized insurance provided a green light for far more building in river flood plains and coastal areas long favored by hurricanes. FEMA ran a national ad telling viewers: "We can't

replace your memories, but we can help you build new ones." Unfortunately, FEMA and the NFIP have long been inducing people to build homes in areas where their memories get swept away.

A 1997 *Idaho Statesman* report on a Boise river flood concluded that the NFIP "has backfired—bringing more people into harm's way" and has made risky development "look not only possible, but attractive."<sup>3</sup> Doug Hardman, Boise-Ada County emergency services coordinator, observed that subsidized flood insurance "did exactly the opposite of what it was designed to do. It has encouraged people to move there

and encouraged developers to develop there."<sup>4</sup>

The NFIP amounts to a type of anti-environmental socialism. Scott Faber of American Rivers, a conservation organization, observed, "Prior to the 1960s, you didn't have much development in flood-prone areas because you couldn't find any insurer crazy enough to

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underwrite it. But the federal government came along and said it is okay—we are going to make it financially possible for you to live in a flood plain. The effect of this has been much more dramatic in coastal areas, where we have seen a huge boom in coastal development in the last 30 years.”<sup>5</sup>

The primary effect of federal flood insurance is that far more property is now damaged by floods than would have occurred if the insurance had not made it possible to build in flood-prone areas. The Long Island Regional Planning Board in 1989 complained that federal flood insurance “in effect encourages a cycle of repeated flood losses and policy claims.”<sup>6</sup> And, especially in places like Long Island, the program underwrites the vacation homes of the wealthy.

Consider the experience of Topsail Island, a 26-mile island off the North Carolina coast right in the middle of “hurricane alley.” At a time when North Carolina Governor Jim Hunt was trying to discourage rebuilding on the island, FEMA came in and deluged the area with more than \$100 million to rebuild private and public facilities after two hurricanes hit the island in 1996. In 1998, the island was hit by another hurricane—and FEMA rushed in to spend another \$10 million to repair things. The 1998 damage was greater than it otherwise would have been because FEMA had extended the sewer system after the previous hurricane, thus opening the door to new development.<sup>7</sup> Federal relief spending over a three-year period amounted to more than \$10,000 for each permanent resident on the island.<sup>8</sup> “The original development wasn’t sound, and now for the third time in three years, we’re going to have to come in and provide assistance. There’s very little common sense,” observed Kevin Moody of the U.S. Fish and Wildlife Service.<sup>9</sup> FEMA paid almost the entire cost of rebuilding local government buildings and infrastructure, and federal flood insurance paid the large majority of the cost of rebuilding private homes. The *News and Observer* in Raleigh noted that “the taxpayer-

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financed [FEMA] bailout [after the preceding hurricane] has reimbursed resort towns for just about any piece of public property that blew away in the storm. . . . [It] has undermined years of efforts to discourage unwise development.”<sup>10</sup>

FEMA pretends that merely shifting the cost of flood damage from a homeowner to taxpayers in general is almost as good as preventing a flood. In the late 1990s it ran a national television advertising campaign (titled “Cover America”) urging Americans to buy into the NFIP. President Clinton’s FEMA director, James Lee Witt, declared: “The greater the coverage we can achieve, the healthier the flood insurance program will be, and there will be less of a burden on the disaster program.”<sup>11</sup>

However, it is scant consolation for taxpayers whether they get boarhawged for disaster relief directly or for payouts under an insurance program designed to reward risky behavior. According to one FEMA analyst, “The way they advertise the flood insurance is disgusting. It is a Ponzi scheme—and they have to replenish that sucker because it is running dry. The NFIP is amazingly generous: you are talking of up to \$250,000 for property damage coverage for only a few hundreds a year. . . . That is absurd.”<sup>12</sup> Private insurance companies in some cases would charge a \$10,000 annual premium for many of the insurance policies which FEMA gives away for chickenfeed.

### Misleading the Public

FEMA has continually sought to mislead the American public about the nature of its flood “insurance.” In 1997, in response to an article of mine whacking the NFIP in the *Los Angeles Times*, FEMA chief Witt declared that I was wrong when I said flood insurance was “subsidized.” Witt explained: The NFIP is a self-supporting program; claims and operating expenses are paid from policyholder premiums, not taxpayer dollars.”<sup>13</sup> But the NFIP has repeatedly been bailed out by Congress,

thus creating a fiction that the program is not an actuarial rat hole. Since FEMA is subsidizing many, if not most, of the people who buy the policies, the more policies FEMA sells, the greater the financial crash-and-burn will be when Mother Nature catches up with the agency.

Witt claimed that communities are required to “enforce sound flood plain management in exchange for the availability of affordable flood insurance.”<sup>14</sup> But since FEMA is anxious to sign up as many people as possible for the NFIP, the agency is grossly negligent at requiring sound policies in return. Beth Milleman of Coastal Alliance, an environmental activist group, scorned FEMA’s campaign to get more flood-insurance enrollees: “They are merrily skipping around the country tossing subsidized insurance policies at anyone who has a damn bathtub.” Milleman observed that the flood insurance “encourages people to rebuild in harm’s way, which is also bad for the coastal environment. What disaster relief and flood insurance wind up doing is giving people the financial means to build or rebuild in exactly the same spot that we know is disaster prone. And it is no strings attached nine times out of ten.”<sup>15</sup>

FEMA claims that the flood-insurance program encourages responsible behavior because, unless a person gets the insurance contract, the agency will only give him one bailout of up to \$10,000 to cover his losses from a flood—next time he is out of luck. However, even this Wiffle-ball penalty provision is a mirage. The agency’s inspector general reported, “FEMA regional staff generally were not effective in identifying ineligible applicants who received grants during previous disasters but did not comply with flood insurance purchase and maintenance requirements.” The report also noted, “Neither FEMA nor most states maintain records of who purchased insurance and if they maintained it for the required time. Without such records, it is not possible to monitor compliance.”<sup>16</sup>

Flood insurance has been horribly managed for decades. “Forget and forgive” is FEMA’s attitude towards repeat claimants. Roughly 1 percent of insured proper-

ties “have cost the program 38 percent of the claims since 1978, because they repeatedly flood,” the *Sarasota Herald-Tribune* reported.<sup>17</sup> A National Wildlife Foundation study estimated that 2 percent of properties covered by federal flood insurance had “multiple losses accounting for 60 percent of the program’s total claims.”<sup>18</sup> Almost \$3 billion has been spent in the last two decades “repairing and rebuilding the same structures two, three and four times.”<sup>19</sup> One Houston home suffered 16 floods; its owner collected more than \$800,000 in compensation for repair costs.<sup>20</sup> The flood-insurance program paid \$200,000 to repair and rebuild a Louisiana home, hit by 15 floods, that was worth only \$30,000. The *Houston Chronicle* reported the case of “a modest \$49,300 home in Canton, Miss., which was flooded 25 times and brought \$161,279 in insurance payments.”<sup>21</sup>

While the federal government heavily subsidizes flood insurance, it also has dozens of programs to prevent a shortage of floods. As *Sierra Magazine* noted, “More than 40 separate federal programs and agencies, governing everything from highway construction to farm export policy, encourage building and farming on flood plains and wetlands. In 1996 alone . . . over

\$7 billion was poured into ten programs that aggravate flooding.”<sup>22</sup>

### Bush Team Perpetuates the Fictions

Bureaucrats cannot be counted on to make sound decisions on other people’s scarce resources. In congressional testimony in March 2004, then-FEMA chief Michael Brown declared, “The number of NFIP policies will be increased by 5 percent.”<sup>23</sup> This is a typical Soviet-bloc accounting mentality—as if the goal was simply to have more customers—not to make a profit or achieve something more than bureaucratic bragging rights. Brown assured a Senate appropriations subcommittee: “The National Flood Insurance Program (NFIP) has a significant impact on reducing and indemnifying this Nation’s flood losses. Prior to the creation of the NFIP, floodplain management as a practice was not well established, and only a few states and several hundred

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communities actually regulated floodplain development.” This is simply repeating the same fictions by which NFIP subsidies have been justified for two generations.

Brown told the Senate that FEMA’s “Flood Map Modernization Program provides the capability to broaden the scope of risk management. . . . Communities, lenders, insurance agents, and others use the maps and the flood data approximately 20 million times a year to make critical decisions on land development, community redevelopment, insurance coverage, and insurance premiums.”<sup>24</sup>

Brown neglected to mention that FEMA’s flood maps are often hopelessly out of date. FEMA is currently using floodplain maps as old as 1979—despite the vast changes in coastal areas, watersheds, and development. FEMA set up a helpline, but up to 40,000 people in one year were given responses that may have included “significant errors,” which may have resulted in “significant financial loss to the customer, including but not limited to wrongful denial of insurance coverage at the time of the loss.”<sup>25</sup> Callers were often falsely assured that they did not live in a floodplain and thus did not need flood insurance. An audit report in early 2005 titled “FEMA Call Center Assessment” was so damning that the agency tried to suppress it. (A copy leaked out to ABC News.) Robert James, the author of the report, said of FEMA’s call-takers: “Most of them, as far as work experience, had fast food, Wendy’s, pizza places.”<sup>26</sup>

### The 2005 Knockout Combo

Hurricanes Katrina and Rita shattered whatever pretense of fiscal responsibility the NFIP once possessed. As of early October 2005 the program was estimated to go \$20 billion into the red as a result of claims from the two hurricanes that hammered the Gulf Coast. The NFIP collects only about \$2 billion a year in premiums—thus guaranteeing the program would go belly up. Except that politicians cannot resist restocking the program’s coffers with cash.

In November FEMA announced that it was suspend-

ing payments for flood-insurance damage claims, effectively, if temporarily, defaulting on its promises to claim holders. Congress responded by rushing to pass legislation entitling the NFIP to siphon off \$18.5 billion from the U.S. Treasury to pay off its claims. The action is labeled “borrowing”—but anyone who expects FEMA to repay the Treasury (and taxpayers) is naïve enough to buy Florida swampland. President Bush’s signature on the bailout was barely dry before David Maurstad, the acting NFIP chief, announced that “FEMA will continue to work with lawmakers on securing additional borrowing authority.” FEMA is expected to pay out roughly \$23 billion for claims related to the major hurricanes of 2005.

Not surprisingly, congressmen are anxious to exploit the flood-insurance program to camouflage the welfare they give to often affluent voters. After Katrina clobbered Mississippi, Rep. Gene Taylor of Mississippi introduced a bill titled the “Buy-In Act” to permit people to buy flood insurance retroactively. If some private company permitted people to retroactively buy fire insurance after their homes burnt down, and then backdated the policies to hide the retroactive sleight of hand, the company officials would almost certainly be sent to prison for fraud. However, when the U.S. Congress does the same thing, it is public service. The fact that congressmen would even talk of people retroactively buying insurance is testament to the congressmen’s gauge of the stupidity of the American public.

The massive flood-insurance payouts caused by the hurricanes are spurring the usual calls to reform the program. But, with much fanfare, Congress had already enacted legislation early in 2005 to reform the program. The Bunning-Bereuter-Blumenauer Flood Insurance Reform Act sought to curb the repeated bailouts of property owners. Naturally, Congress sought to solve the problem by throwing more money at the people who had already pilfered the Treasury. The new law obliges FEMA to offer to pay much of the cost of “mitigation”—such as raising a house above likely flood levels. How did it become your or my responsibility to pay to

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have some homeowner's vacation place raised? If a homeowner with flood insurance refuses the government's handout offer, the feds can raise his floor insurance premium by up to 150 percent. However, if somebody is already getting a de facto 90 percent subsidy on his insurance rates, a 150 percent increase would still leave him massively subsidized—and would continue to encourage him to live and rebuild in harm's way. Thus, the "reform act" was simply another in a long series of frauds.

The only sound way to reform federal flood insurance is to abolish the National Flood Insurance Program. Politicians and bureaucrats cannot be trusted to make policies or set rates in ways that will serve the public. But there is no way to reform the incentives or boost the responsibility of members of Congress. Thus whatever paper reforms are made to the flood-insurance program will almost certainly be transient—overturned at the first viable opportunity by members of Congress waiting to jigger the system to subsidize constituents. There is no way that a program can run well in the long term when the primary incentive is for congressmen to sabotage its soundness in the short term. Congressmen win votes for boondoggles, not for judicious management.

Some private insurance companies are beginning to offer insurance policies for luxury homes on the coast. This is a niche that can be filled by private enterprise. Professor Rob Young of Western Carolina University declared after Katrina: "If coastal development is such an economic powerhouse that it is essential to the viability of a locality or a state, then let's let the free market decide. No more federal money for rebuilding infrastructure. No more federally subsidized flood insurance."<sup>27</sup> It is no loss to the nation if people build houses a mile or 10 miles out of harm's way.

The political windfall profits that follow a natural disaster epitomize how politicians' and citizens' interests are antithetical. The more citizens suffer, the more politicians profit by throwing money and promises in all directions. The only concept of "disaster" guiding federal policy now is the horror that politicians may miss a chance to use tax dollars to buy themselves more votes. 

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