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SHOULDERING THE BURDEN: FEDERAL ASSUMPTION OF DISASTER COSTS

In the introduction, Platt provides a brief history of the evolution of US disaster policy as it has responded to changing political, legal, and disaster events, culminating in the passage of the Federal Disaster Relief Act of 1950. Prior to 1950, prevailing views of natural disasters as "acts of God," and unwillingness to regulate private economic behavior meant federal government action was extremely limited. Events leading to the changing role of government in disaster assistance included several large disasters, the progressive movement, and Supreme Court legal decisions.

Chapter 1 discusses changing government initiatives designed to reduce the impact of disasters post-1950. The Disaster Relief Act of 1950, though modest, is important because it began the federal involvement in disaster assistance and was a model for future disaster assistance legislation. Legislation quickly expanded the scope of public assistance (PA), and the authorization of individual assistance (IA) was a significant event in the expansion of benefits. While the scope of both types of benefits is broad, IA is a means tested program, yet PA is essentially an entitlement program. Federal assistance is also not truly supplemental: the vast majority of disaster requests are granted, and Congress favors imprecise formulas that err on the side of inclusion of the non-needy, rather more technically correct formulas that carry a small risk of excluding the needy. The election cycle, media attention, and political factors contribute to the frequency of disaster declarations and the ensuing entitlement process.

Though federal assistance from the Disaster Relief Fund has expanded rapidly, total federal disaster-related assistance is much larger and offered by different public and voluntary agencies, with the four largest being the National Flood Insurance Program (NFIP), the Small Business Administration (SBA) disaster loan program for homes and businesses, the Farmers Home Administration (FmHA) disaster loan program, the Federal Crop Insurance Program, and disaster related "community development block grants."

The largest of these programs is the NFIP. Platt points out the 90 percent of natural disasters in the US are flood related and create the bulk of the disaster costs, and the NFIP was created to deal with a market failure: the absence of affordable, private flood insurance. The government struck a bargain with communities: it would make low-cost flood insurance available to communities if the communities would reduce their vulnerability though certain measures. This arrangement allowed for the mapping of flood vulnerability, which assists in formulating land use and building codes, and insurance premiums. NFIP is primarily coastal—and highly demanded by wealthy property owners and developers. One serious weakness is the problem of repetitive losses, whereby the program continues to insure structures with little increase in premiums. Given the reluctance of the NFIP to risk adjust premiums; it serves more as an entitlement program than an insurance program for wealthy coastal communities and developments.

The author concludes by discussing the tricky problem of moral hazard. The government has recognized for more than thirty years that a generous benefit policy provides individuals and communities little incentive to reduce risk or hazards. Providing benefits with few strings attached, covering repetitive losses, and failing to risk-adjust premiums contribute to moral hazard. The expansion of disaster benefits and federal insurance has created a backlash among conservative commentators, who question the wisdom of providing any disaster relief or disaster insurance. Some question why disasters are morally "special," that is, why a middle class homeowner in Florida should receive disaster assistance for flood losses while a middle class homeowner in Pittsburgh should not receive disaster assistance for fire losses. A second line of argument insists that federally subsidized insurance essentially creates disasters by encouraging people to take risks, and encourages over-development in hazard-prone areas.

In response to conservative critics of federal disaster assistance and insurance, both lines of argument—that disaster victims are not special, and that federal insurance encourages risk-taking and should be abandoned—are oversimplifying some important economic arguments in favor of government intervention. First, disaster relief and assistance has a "public goods" component.[1] Unlike a fire in a Pittsburgh home, the economic impact of a large disaster can spread to surrounding areas not directly affected by the disaster, and the national interest is served by restoring the economy of the disaster area as quickly as possible.

Second, moral hazard is a classic economic problem with both private and public insurance. It is complicated by second economic problem called the "Samaritan's dilemma:" societies are unwilling to leave people helpless (or let middle class homeowners in Florida be homeless), yet all citizens know this. Even in the absence of federal insurance, the Samaritan's dilemma suggests that some persons won't purchase insurance anyway. Stossel's unspoken conclusion (drawn from an extreme example) that "There should be no federal flood insurance," ignores the fact that for political and moral reasons taxpayers *are* going to help many disaster victims. When implemented well, requiring the purchase of subsidized flood insurance conditioned on mandatory hazard mitigation techniques can improve disaster outcomes.

So where does that leave us? The US desire to assist everyone who needs help in an egalitarian way, and make affordable insurance available to everyone, is clashing with its reluctance to interfere with private property rights. Increasing hazard mitigation would decrease disaster costs but is politically tricky: the government must be willing to bear the political costs of imposing stricter building codes or prohibiting building in certain hazard prone areas. But I argue that given the problems of moral hazard and the Samaritan's dilemma, hazard mitigation must be strengthened at the expense of weakening the property rights of the owners who will benefit directly and indirectly from disaster assistance.

[1] I am setting aside the problem of repetitive losses for the moment.