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Special Bastille Day Issue: Let Them Eat Risk

Moneyed interests demonstrated that they have not yet given up on looting the taxpayers' Treasury, notwithstanding that the change in Administration has made it necessary to proceed with the looting through the medium of Congressional legislation rather than by the more expedient mechanism of the Presidential executive order..

A group calling itself ProtectingAmerica.org announced that they are urging Congress to enact HR-2555, the "Homeowners Defense Act of 2009" to create a "National Catastrophe Risk Consortium" chaired by the United States Secretary of the Treasury. The Consortium is to support State-operated property reinsurance programs by providing Federal loan guarantees of up to twenty-five billion dollars for money borrowed by individual States to re-insure homeowners insurance carriers to cover property losses due to "natural disasters". This appears to be modeled on Fannie Mae, where an "independent corporation" brought to the taxpayers ownership of defaulting home mortgages, requiring billions of dollars of taxpayer bailout. HR-2555 was introduced May 21 by Rep. Ron Klein of Florida. ProtectingAmerica.org is supported by various private insurance carriers, while at the same time various private insurance carriers oppose Congressional enactment of a Federal health insurance program.

Why might the same financial interests encourage Federal homeowner insurance but oppose Federal health insurance? Follow the money.

Insurance companies make gigabytes of profits selling health insurance to folks who are financially secure enough to pay the premium. For folks who can't pay the premium, there are bankruptcy courts and Medicaid. These insurance carriers do not want the Federal government disrupting this revenue stream.

But, some of those same insurance companies also sell property casualty insurance to some of those same financially secure folks, who tend to have vacation homes or retirement homes at seashores, wilderness areas, and earthquake fault lines. These insurance companies now want the taxpayers to bail them out in the event God decides to inflict on their insureds a hurricane, wildfire, earthquake, or other indicator of Divine Displeasure that these insurance companies have been collecting premiums to insure against.

A taxpayer-funded catastrophic property insurance program is counterproductive to the great numbers of Americans who do not have vacation homes. It is almost as morally reprehensible to legislate that taxpayers of modest means subsidize the beachfront villas and wilderness castles of the more financially fortunate, as it is to legislate that taxpayers bail out billionaire gamblers in credit default swaps who lose their bets.

The National Flood Insurance Act of 1968 demonstrated the counterproductive effect of taxpayers subsidizing high-risk construction. It enabled the construction of beachfront condos on the Outer Banks, the Intracoastal Waterway, and picturesque riverfronts throughout the United States. After almost forty years, Senator Jim Bunning of Kentucky shepherded the Flood Insurance Reform Act of 2004 into law, including in the formal Congressional findings:

> "(5) repetitive-loss properties constitute a significant drain on the resources of the national flood insurance program, costing about $200,000,000 annually;
>
> "(6) repetitive-loss properties comprise approximately 1 percent of currently insured properties but are expected to account for 25 to 30 percent of claims losses;"

http://www.gpo.gov/fdsys/pkg/PLAW-108publ264/pdf/PLAW-108publ264.pdf

ProtectingAmerica.org does also advocate responsible land-use policies that discourage construction in likely disaster areas. That organization and the supporting members of Congress are probably well-intentioned. One wonders if they knowingly support taxpayer financing of catastrophic property insurance that will provide financial incentives toward reckless land use. Regardless of what considerations may underlie this co-operation of seemingly contradictory interest, the provisions of HR-2555 that commit the taxpayers to bail out States who bail out insurance carriers who insure private construction of showplace palaces in known hurricane and earthquake and wildfire areas, are NOT acceptable.

An editorial opposing proposals to weaken the State of South Carolina's Beachfront Management Act, published in the *Beaufort Gazette*, Beaufort, South Carolina, July 1, 2009, nicely summarizes the argument: "Society as a whole cannot indulge risky construction for short-term gain. . . The state of Florida faces an actuarial tsunami when it comes to insuring vulnerable properties. The state's catastrophe fund for reinsurance faces a shortfall of $15 billion or more if a major storm hits. The state's taxpayers would be on the hook for the losses. . .
That's why (Florida Governor Charlie) Crist and many others are pushing for a national catastrophe insurance fund to spread the risk. That means all of us would bear the cost of bad decision-making."
http://www.islandpacket.com/opinion/story/891426.html

Disregarding that Florida is a major swing state in Presidential elections, the taxpayers should not be in the business of insuring construction projects in geographical areas likely to be struck by "natural disasters". The Bunning Flood Insurance Reform Act of 2004 was a step in the right direction. The taxpayers should take additional steps to get out of the high-risk insurance business. The next Flood Insurance Reform Act should be designed to close down the program so that, if a developer wants to build in an area that is so dangerous that private carriers will not cover the risk, that developer will bear all the risk itself and not be enabled by the taxpayers to keep the profit if it avoids the disaster but spread the cost to all the taxpayers if the disaster strikes its project. Reforms might include:

(1) No new taxpayer-backed policy to issue for new construction. If a location has so high a risk of catastrophic destruction that a private carrier will not insure, it should not be built. If a property owner wants to build in such a location, in deliberated disregard of that risk, that risk should be borne by the property owner only and not insured by the taxpayers.

(2) For existing policies of flood insurance, no increase in the existing limit of coverage for any policy. It is just as morally repugnant to encourage further expansion of existing high-risk structures as it is to encourage new construction.

(3) For existing policies, any claim for damages paid by the taxpayers reduces the remaining limit of coverage, exactly as a "lifetime limit" of claim amount in a health insurance policy. When the "lifetime limit" of claims on an individual policy is reached, that policy ceases to provide coverage.

(4) For existing policies, upon sale of the insured real estate, any remaining coverage under the "lifetime limit" of the sellers' policy, as reduced by any claims previously paid to the sellers, may be assigned to the purchasers of the real estate. There shall be no new policy issued to a purchaser of a high-risk property and no increase in coverage for that property over the remaining amount of the "lifetime limit" of the policy assigned to the purchasers from the sellers. If a purchaser is so attracted to the excitement of living in an area known to be at risk of "natural disaster", that purchaser should bear all the expense of his thrill-seeking and not expect the taxpayers to pay for his consequences.

And what shall the taxpayers do with all the money that is not spent paying property insurance claims to folks who like to build dangerously? One would think that any of the proposals to expand health insurance coverage to folks who do not presently have health care access, might be one alternative investment.

As Her Most Christian Majesty Queen Marie Antoinette probably would not have said, "Let them eat risk."

Happy Bastille Day. Issue some Presidential pardons to commemorate.

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