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GOVERNMENT FLOOD PROGRAM TIED TO ENVIRONMENTAL DAMAGES AND ECONOMIC DISTORTIONS

Federal dollars may subsidize risky development of expensive homes in flood prone areas

New York City, April 21—The government’s flood insurance program gives discounts to homeowners who build in flood prone areas, often causing significant environmental damage. In an analysis released this morning, the Institute for Policy Integrity finds that this practice can benefit wealthy owners of expensive homes at a cost to the average taxpayer.

This analysis comes as the House Financial Services Committee is set to advance legislation that would maintain many of NFIP’s current policies for several years.

The National Flood Insurance Program (NFIP), a division of the Federal Emergency Management Agency (FEMA) provides low cost insurance rates for homes and businesses. The cheap policies encourage development in risky, low-lying and coastal areas—the same areas that tend to be ecologically sensitive. When disaster strikes, the government (and ultimately taxpayers) must pay the bills.

Policy Integrity’s analysis, Flooding the Market, finds that middle-income areas are least likely to benefit from the program. Instead, the program’s subsidies help wealthy Americans with large beachfront properties or vacation homes, and individuals lower down the income distribution during severe weather events. The cost of these policies—and the associated environmental and economic risks of building in floodplains—are borne by all taxpayers.

“NFIP sometimes works like a backwards Robin Hood—using taxpayer dollars to provide subsidies for environmentally questionable development in high income areas,” said Policy Integrity executive director, Michael Livermore. “As currently structured, the program is not well designed to target support to the people most in need.”

The House Financial Services Committee will also examine other proposals, including expanding the federal government’s role in now largely private insurance markets for windstorm coverage, that will increase the scope of the program.
Report author and economics fellow, Scott Holladay said, “As lawmakers consider the future of the National Flood Insurance Program, they should be aware that the policy redistributes wealth across income groups in ways they might not intend. Middle-income areas are least likely to benefit, and while the program does seem to help lower income people during years with lots of claims, relatively wealthy areas are tend to be large beneficiaries every year.”

The Institute for Policy Integrity at New York University School of Law is a non-partisan think-tank that works with advocacy organizations and governments to use economics and law to protect the environment, public health, and consumers. At the national and local levels in the United States and across the globe, Policy Integrity projects bring economics to bear on issues like climate change, public health, and net neutrality.

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