The Daily Dish

The Taxpayer Risk Index is Red

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 14, 2018

Eakinomics: The Taxpayer Risk Index is Red

As Hurricane Florence churns inexorably inland, Americans are becoming familiar with some new concepts, such as the Federal Emergency Management Agency's (FEMA's) Waffle House Index (WHI). The index is a tribute to the chain's reputation for being able to stay open and serve in the worst of conditions. Wikipedia indicates that it has three levels:

- GREEN: full menu – restaurant has power and damage is limited or no damage at all.
- YELLOW: limited menu – no power or only power from a generator, or food supplies may be low.
- RED: the restaurant is closed – indicating severe damage or severe flooding.

Let us all hope that WHI remains green, because Florence is going to cause enormous amounts of red ink in the best of circumstances. As documented by *The Wall Street Journal*, "Fewer homeowners in North and South Carolina own flood insurance than five years ago, signaling many won't have access to ready cash if they need to rebuild after Hurricane Florence….As of July 31, the latest figures available, the 134,306 policies in place in North Carolina from the National Flood Insurance Program represented a 3.6% decline from 2013. In South Carolina, ownership was down 1.2%, to 204,342, according to an analysis of government data by The Wall Street Journal."

One might think that this is good fiscal news. After all, the National Flood Insurance Program (NFIP) is already a financial disaster area that Congress has repeatedly declined to reform. Fewer policies might mean fewer demands for insurance payouts from the NFIP. But the program covers a disproportionate number of Repetitive Loss Properties — properties that make repeated claims for insurance — underprices flood risks, suffers from poor management, and fails to take advantage of private capital to cushion taxpayer exposure to losses.

So, expect the NFIP to take another hit. And those who are not covered by flood insurance will apply for federal disaster assistance in the form of grants or loans. The taxpayer will get hit one way or another; even when the Waffle House Index is green, the Taxpayer Risk Index could be flashing bright red.