The American Creed: Conquer and Build

(And Lobby for Subsidies to Prevent Incurring Losses)

by Edward Dodson, Cherry Hill, NJ

Hardly a day goes by without news of the latest natural disaster. Tornadoes, hurricanes, floods, droughts, wind storms, hailstorms, thunder storms and earthquakes abound. Nature seems to be rebelling against the incursion of human settlement. Or, perhaps, the land extensive type of human settlement that has occurred in this century has put people and what we construct in harms way.

There is a great deal of risk associated with where and what we build. If the average temperature of the earth warms by only a few degrees over the next few decades, we are told to expect increasingly destructive storms striking our coastal cities. Even worse is the possibility that low-lying cities will be subject to regular flooding.

The Federal and state governments in the United States (and, elsewhere) have adopted legislation that increasingly restricts the ability of property owners to rebuild property that is located in areas prone to flooding and storm damage. Taxpayers are resisting the annual expenditure of money to pump sand back onto beaches that are virtually assured of being eroded by the next severe storm. Lending institutions will not finance the purchase of beach homes or homes located in flood hazard zones unless the owners are able to acquire flood insurance; and, the private insurers — faced with billions of dollars in annual claims — are either declining to offer coverage or are increasing premiums to reflect the losses attached to these locational risks.

For older seashore towns, the financial exposure of property owners ranges from little to great. Many property owners are not year-round residents. Their properties are "second homes" or are rented most of the time and are investment properties. Destruction of these properties, even if uninsured, may not impose a serious financial hardship on the owner. Removal of an entire section of buildings from the beach may actually cause the value of properties more distant from the water to increase (inasmuch as the supply of available properties has been reduced, and properties once blocked by other buildings now have an ocean view). Mortgage lenders may respond by requiring larger down payments, which means that fewer potential buyers exist but also that the community may take on an even more exclusive character.

What ought to be of greater concern to us are the large cities that have grown up in areas increasingly prone to one or more of the disasters mentioned above. Millions of households live in extremely vulnerable housing, and have little or no savings to fall back on in the event of a material loss. There is no easy way to mitigate these problems, so we just seem to hope that whatever happens will not impose too stiff a penalty on us for our foolhardiness.

Everywhere we find exposure we also find that that exposure has been subsidized. People are more risk adverse when the risk is direct. The private sector imposes direct costs on risk-takers, but politics has reduced or even eliminated the penalties. Readers of GroundSwell know that allowing the private appropriation of location rent has played a major role in unwise development across the U.S. and around the globe. Every parcel of land has an annual rental value; to the extent this rental value is not collected each year via the tax mechanism, the uncollected rent is imputed income to the person or entity controlling that parcel, and imputed income is capitalized giving locations a selling price. Federal or state insurance programs that protect owners from the risk of loss due to floods or hurricanes or earthquakes act to increase the rental value of locations in areas prone to these disasters. The quid pro quo for such programs must be the full collection of the location rent.

There have been a few stories of entire towns relocating to higher ground as rivers changed course or more frequently flooded. Such wholesale moves are not practical in population centers. What are your ideas? What, if anything, do you think we ought to do to reduce the potential for loss of life to which we seem unwittingly exposed?

(Editor's note: Ed Dodson has 25 years experience in the housing financing industry. For the last five years he has worked in the Housing and Community Development group at Fannie Mae's Philadelphia office. He is a graduate of Shippensburg and Temple Universities. The opinions expressed in this article are his own and do not necessarily represent those of his employer or any other organization with which he is affiliated.

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