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The House's Anti-Terror Insurance Bill: Unnecessary Corporate Welfare

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With great uncertainty over the nature of emerging transnational terrorism threats in the period following 9/11, it seemed reasonable for the federal government to establish a temporary program to protect the insurance industry so that it could insure against potentially catastrophic losses due to terrorism. For this reason, Congress passed the Terrorism Risk Insurance Act (TRIA). The time for this program, however, has long passed. It is no longer required to reassure a shaky marketplace; the private sector has had more than sufficient time to determine how best to respond to its terrorism insurance needs. Instead of letting the program lapse, however, a new bill, the Terrorism Risk Insurance Revision and Extension Act of 2007 (H.R. 2761), would extend TRIA for 15 years and expand the program, increasing the government's liability by adding provisions to cover group life insurance programs. President Bush has threatened to veto the bill, for good reason: A TRIA extension is simply not necessary. Congress should let the program lapse.

A Brave New World. In the wake of the terrorist attacks against New York and Washington on September 11, 2001, the private sector faced a number of perplexing issues, including judging the costs and risks of investing in and insuring assets in a post-9/11 world. The market, unable to predict the frequency and magnitude of terrorist attacks, was unable to price insurance—arguably a market failure—opening the door to corrective action by the government.

TRIA was intended to help reassure the marketplace and see it through this period of uncertainty. Indeed, one of the findings in the legislation stated, "[T]he United States Government should provide *temporary* financial compensation to insured parties, contributing to the stabilization of the United States economy in a time of national crisis, while the financial services industry develops the systems, mechanisms, products, and programs necessary to create a viable financial services market for private terrorism risk insurance." Following the passage of the act, the Bush Administration signed a two-year extension of TRIA in 2005, with the understanding that the program would then be phased out.

Ending TRIA makes sense. The private sector has had five years to assess the post-9/11 investment environment and determine how to weigh and mitigate risks, and the evidence strongly suggests that free markets have accomplished since 9/11 what they always do best: Set reasonable prices for insurance and reinsurance products that are based on decisions expert buyers and expert sellers have made using the best information available. Private insurance companies have had adequate time to develop and refine products to insure against malicious acts of terrorism.

Stealth Legislating. Temporary government programs almost always find a way to become immor-

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tal, even (and especially) when their purpose has passed. With little fanfare and no serious debate, Congress now proposes to extend TRIA until 2022. This extension would, in effect, make TRIA permanent and turn it into just another government entitlement program, costing over $10 billion by Congressional Budget Office estimates. Even if the private sector has still not fully adjusted to accommodating post-9/11 demand for terrorism insurance, there is no reason to believe that it will require another decade and a half for the business world to catch up with the reality of living with the enduring threat of terrorism.

Proposals to extend TRIA to additional insurance product lines are especially troubling. Products such as group life insurance were not regarded as needing government reinsurance in the uncertain atmosphere of 2001, or even in 2005. There is no reason to add them to the program now.

Time-Out. Congress needs to take a TRIA time-out. It should reject any reauthorization of TRIA, for any period of time. Congress should steadfastly reject any proposals to expand the scope of the program, such as by expanding it to cover group life insurance.

Adding expensive government programs that duplicate or supplant private sector insurance is not going to make Americans any safer. Such efforts will, however, undermine prosperity by growing government and marginalizing the capacity of markets to act in their own interests.

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