

wake of Hurricane Katrina. If adequately financed and trained, these state reservists can fill in for National Guard units when they are mobilized away from their home states. But for the most part, they do not have enough equipment or training because, unlike the National Guard, they do not receive any federal funding nor are there any performance criteria—two elements critical for making the Home Guard work.

Participation in a volunteer Home Guard would make many more Americans feel that their efforts are making the war on terror sustainable. The dangers we face are found in the Gulf of Mexico as well as in the Persian Gulf. The cost of one month's operations in Iraq is a small price to pay for protecting the homeland from a natural calamity like a Category 5 hurricane or a terrorist attack. For the next president to do less is to court disaster. **D**

Pay-As-You-Drive Car Insurance

Jason Bordoff

If you're like most Americans, you eat too much at all-you-can-eat buffets. With auto insurance, it's no different. Drivers who are similar in all respects—age, gender, driving record—pay roughly the same premiums whether they drive 5,000 or 50,000 miles per year, even though the likelihood of a collision increases with each mile. This “all-you-can-drive” pricing scheme imposes significant costs on society: more traffic accidents, congestion, air pollution, greenhouse gas emissions, and dependence on oil. It's also inequitable, as low-mileage drivers, particularly low-income people and women, subsidize high-mileage drivers.

A better approach is simple and obvious: pay-as-you-drive (PAYD) auto insurance. With insurance costs that vary with miles driven, people would have an incentive to drive less, thus decreasing the harm that more miles have on society. Under this system, higher-risk drivers—e.g., the 25-year-old with a sports car and a DWI record—would still pay more per mile than lower-risk drivers, and the effect of PAYD on miles traveled and gasoline consumption would be significant: a 6.5 percent reduction under conservative estimates, and others suggest the reduction could be as high as 10 percent. To put that in perspective, it would take an 81-cent-per-gallon increase in the gas tax to achieve a 6.5 percent reduction in miles driven.

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The social benefits of PAYD would be approximately \$30 billion per year, mostly from reduced accidents and congestion, as well as reduced local pollution and carbon emissions plus increased oil security. Premiums would also decline for around two-thirds of drivers, since a minority of high-mileage drivers are responsible for the majority of miles driven. Estimates show that those who drive less than average would save up to several hundred dollars per vehicle. And because there is a very strong correlation between income and driving, most low-income people would see their rates come down. The same is true for women, who drive roughly half as much as men and have half as many accidents.

To be fair, some firms do offer a modest discount for driving below a certain number of miles, but even that is based on a self-reported estimate and falls

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far short of true per-mile pricing. But if PAYD is such a good idea, why don't more insurers offer it? The primary objection has long been a concern over odometer fraud (though that is much less of an issue today, with electronic odometers and new technologies to record and transmit mileage data). Another objection holds that

the monitoring costs borne by an insurer—to conduct annual odometer checks or install devices to record mileage data—may exceed the potential benefits for the firm from reduced accidents. Economist Aaron Edlin estimates those benefits to insurance companies to be roughly \$33 per vehicle (and even that is only a temporary gain until other firms match its new policies), while the social benefits from reduced accidents and congestion alone would be roughly \$118. Finally, even if insurance firms wanted to offer PAYD premiums, state regulators must explicitly approve the type of insurance policies that insurers can offer, and in several states regulations pose barriers.

In response, government should take three steps. At a minimum, states should enact model legislation and regulatory guidance permitting PAYD, and the federal government should increase funding for PAYD pilot programs to encourage states and to develop better data on PAYD's consumer benefits and effects on driving behavior. Second, policymakers should address the market failure surrounding monitoring costs by requiring that odometer readings be performed as part of required safety and emissions inspections and offering tax credits, for an initial period, to insurance firms that enroll a certain percentage of their drivers in PAYD plans. Finally, if these measures prove insufficient,

states or the federal government should require firms for a limited time to offer PAYD, with drivers free to choose PAYD or traditional policies, to demonstrate its benefits and feasibility and further overcome barriers to its adoption.

Unlike frequently proposed policies like gas taxes and congestion charges that raise the cost of driving in aggregate, PAYD represents a win-win policy—good for society and good for most drivers—that makes significant progress on climate change, congestion, and other driving-related harms and is more equitable at the same time, all while reducing insurance costs for the majority of drivers. ▀

An SBA for Non-Profits

Shirley Sagawa

The nonprofit sector is America's best hope for solving the pressing problems facing its communities. Devolution and downsizing have left the federal government increasingly reliant on nonprofits to deliver important services. Ninety percent of these nongovernmental agencies serve at least some poor clients, and one out of four serves primarily low-income populations. These organizations are often centers of the community, and they provide essential services to educate, train, and improve the well-being of families in need. Nonprofits also profoundly impact the way that we solve social problems, even those that are delivered in large part by the government, acting as laboratories for innovative policy solutions.

Unfortunately, too many nonprofits are high on mission and passion but weak on resources and strategy. As a result, they struggle to achieve the impacts they seek, operating inefficiently, with limited use of technology, and without access to the expertise they need to achieve greater results. To help small businesses in a similar situation, we have the Small Business Administration (SBA).

Yet, for struggling non-profits, there is no help. The Internal Revenue Service focuses on tax compliance, and the Corporation for National and Community Service supports volunteer programs. No agency, however, counts nonprofit health or capacity as central to its mission. Nor does the private sector fill this gap. Foundations provide minimal support, and over the last five years almost all of the leading funders have either cut programs or decreased their size significantly. A federal response is the answer; the General Accounting Office has recommended that "providing assistance to improve [nonprofit] capacity may be

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