A CASE STUDY IN ENVIRONMENTAL AND POVERTY CONFLICT: "Cash for Clunkers" as a Clean Air Strategy

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Unfortunately today, environmental proposals often give rise to conflict with poverty advocates who are charged with the task of protecting the economic well-being of households living on the edge of economic oblivion. Conservation efforts often do, in fact, cost more than low-income families can afford. Clean air and water obviously are not inconsistent with maintaining the economic well-being of the poor. Indeed, the impacts of air and water pollution, toxic wastes. and the like often disproportionately on the poor. Nonetheless, the poor (and their advocates) often seem quite appalled by environmental clean-up proposals based on their observation that low-income households simply cannot afford them.

It is quite clear that the negative economic impact that clean air and clean water proposals might impose on the poor is not reason unto itself to abandon such efforts. In contrast, however, neither does the necessity of environmental clean-up justify ignoring the adverse impacts of particular clean-up strategies on the poor. There must be a sensitivity to the plight of the poor and an effort to mitigate the adverse impacts that might be imposed on those least To make this possible, able to afford them. policymakers must specifically address their attention to the points of contention. After all, the conflict between environmentalism and poverty advocacy often arises merely because environmental decisionmakers lack familiarity with the poverty issues that might be implicated by environmental clean-up proposals.

Cash for Clunkers

One good example of the potential conflict between environmental proposals and poverty interests involves recent proposals to pursue cleaner air through the purchase and retirement of older, pollution-intensive, automobiles. This proposal involves the federal government, private industry, or other entities in buying old autos and replacing them with new autos as a clean air strategy. It is clear that old automobiles are the dirtiest. One recent discussion of a pilot auto buy-back program in Southern California found that the autos studied "proved to be 99 times dirtier than a typical 1990 vehicle in hydrocarbon emissions, 56 times dirtier in carbon monoxide emissions, and 11 times dirtier in nitrogen oxide emissions."

The purchase of old automobiles may be a perfectly legitimate clean air strategy. Moreover, it may make much economic sense. It might be less expensive, as well as more effective, to retire older automobiles than it is to install more expensive scrubbers or other clean-up measures on power plants, factories, and the like. Obtaining clean air, in other words, should have some value. There should be a willingness on the part of the purchasing agency or industry to spend say \$1500 on a new car (particularly if it accomplishes the same clean-up that would result from installing alternative pollution control equipment costing \$1501 or more).

That money *could* be spent on the new car itself. It could, in the alternative, be given as a grant to a low-income household to help that household finance a new car. Hence, under these circumstances, if a newer, clean car cost \$2500, the purchasing agent should be willing to give a grant of \$1500 to match \$1000 by the low-income household to help purchase the newer car. ^{/2/2}

Despite its initial attractiveness from an environmental perspective, this proposal to retire older, polluting automobiles will likely have adverse implications for poor people if not carefully structured. Consider as follows:

1. Price impact of increased demand:

There is a straight supply-and-demand concern. If another player enters the market for old cars

(particularly another *major* player), that new demand for old cars should drive up the cost of those cars. The ability of low-income consumers to spend more than a certain amount on consumer goods such as automobiles, however, is quite limited. The question for the poor, therefore, is whether the increase in cost might drive old cars beyond the point where they are affordable for low-income households.

2. Decreasing supply of affordable automobiles: There is a straight supply concern. The whole purpose of an environmental program to purchase old cars is to remove those pollution-intensive cars from the market. That's good environmentally. If the program succeeds, however, and those cars are removed (which, of course, is the entire purpose of the program), a secondary impact is to systematically reduce the supply of affordable cars available to the poor. Thus, the very measure of "effectiveness" from an environmental perspective (i.e., the retirement of older/dirtier cars) is a measure of "harm" from a poverty perspective (i.e., the retirement of older/more affordable cars).

3. Taxability of assistance: The first inclination of many might be to respond to such unaffordability problems by proposing that the purchasing agency (whether it be a local government, a state government, or a private industry) simply provide financial assistance to help low-income households purchase the newer, cleaner That process, however, raises its own problems. Recent experience with utility programs offering arrearage forgiveness and weatherization incentives has shown that the utility contribution involved with those efforts is considered taxable income to the low-income household. At The fact that the industry contribution is to further an end-in-view which is generally accepted to be in the "public good" does not detract from the taxability of the grant. That poses a problem to the poor. As these utility programs have shown, the households are not receiving discretionary income, some of which can be devoted to paying state and/or federal income taxes. Rather they are receiving a grant specifically for the purchase of a cleaner automobile (or, in the previous experience, for the purchase of energy efficiency measures and the like). The impact has thus been that the taxes must come out of income that otherwise would have been devoted to other household necessities such as food, clothes, medicine and the like. From a *cash* perspective, the household ends up worse off. This taxation issue has posed a major problem to the poor within other contexts.

4. **Impact on Food Stamps:** Setting aside the question of taxation, the provision of a monetary grant (even for a specific purpose) has implications for public benefits as well. Within the context of rate relief proposed to abate the adverse water/sewer impacts associated with the Boston Harbor cleanup, 6/ it became clear that one of the most problematic issues involved the consequences on Food Stamps. For each dollar of added income provided as local water/sewer rate relief, a proportionate reduction would be made in a lowincome household's Food Stamp allotment. 18/1 It must be clear that a \$1500 grant to pay for a newer cleaner automobile, which results in a \$500 reduction in household Food Stamps, will not necessarily be welcomed. A low-income household might well be justified to question why it should forfeit \$500 in Food Stamps to provide cleaner air.

5. Public benefits and automobile asset

limits: Not all problems involve affordability issues. There is the "asset problem" as well. Thee are some public programs --AFDC is an excellent example--^{/9/} which have an auto asset limit of \$1500. Hence, if low-income households are forced into acquiring newer and cleaner cars, they're also forced into acquiring more expensive cars. In this respect, it does not matter who might pay for the new car. Even in the situation posited above, where someone contributes \$1500 to help finance the new car, the low-income household's increased post-acquisition auto assets may place the household's public benefits in jeopardy by exceeding the auto asset limit. (Indeed, ironically, this problem may arise particularly where someone else contributes the money since, in that case, the entire value of the car would be equity, with no corresponding offsetting debt to lower the "assets" subject to the asset limit.)

6. Public benefits and total asset limits:

Setting aside the *auto* asset limit, a number of public benefit programs (including winter home heating assistance in some states) have *total* assets tests as well. Consider again that if low-income households are forced into acquiring newer and cleaner cars, they're also forced into acquiring more expensive cars. To the extent that the level of assets devoted to cars is forced up, therefore, two other

things will occur at the same time: (a) for *some* households, they will be forced off these public benefit programs to the extent that they exceed the total asset limits; and (b) for *all* households, the program will drive *down* the assets that these households can devote to non-car uses (such as homes). If total assets may be \$5,000, in other words, and auto assets just went from \$1500 (old car) to \$3000 (new car), assets devoted to housing must necessarily decrease to stay within the total asset limits. It is important to note that the argument advanced here is *not* simply that low-income households cannot afford to purchase these new cars. The asset problem is independent of the affordability question.

SUMMARY

As can be seen, the effectiveness of programs in achieving environmental clean-up goals cannot be the only point of analysis for proposed public policies. Environmental programs often have adverse economic impacts on the poor. The proposal to purchase old, pollution-intensive automobiles is one such example. While perhaps making economic and environmental sense, such programs, unless carefully structured with the poor in mind, may directly threaten low-income access to food, housing, heating and medical care.

1. Skip Laitner, Economic Research Associates, "Impact of Junked Car Program" (Eugene, Oregon: Feb. 1992).

 The issue of where a low-income household may lay its hands on an extra \$1000 to purchase a new automobile is set aside for the moment.
The poverty issues raised in this memorandum are much more subtle than that.

3. See e.g., Charles Hill, Energy and the Poor: The Forgotten Crisis (National Consumer Law Center: Washington D.C.) (May 1989). (low-income households, on average nationally, have \$75 a week left to pay all other household expenses --including rent/mortgage, food, clothing, medical and transportation-- after paying winter home heating bills).

Roger Colton and Adrienne Quinn. The ABC's of Arrearage Forgiveness, at 81 - 95 (National Consumer Law Center: Boston) (November 1991).

5. In Revenue Ruling 82-106, for example, the

local city council enacted an ordinance requiring landlords to provide relocation assistance to tenants who were to be evicted from their units because of a conversion of those units to condominiums or cooperatives. The ordinance was enacted "because of a critical shortage of rental housing in (the) city." The payments in this local tenant relocation situation were found to be "distinguishable from replacement housing and relocation payments." In the latter instances, an "agency of the federal government makes the payments to qualified recipients. Here, the landlords make the payments to tenants who are to be evicted."

- 6. Average annual residential water/sewer bills for persons taking service from municipalities served by the Massachusetts Water Resources Authority (MWRA), the agency charged with cleaning up the Harbor, will reach more than \$1,600 by the end of the 1990s.
- 7. Nancy Brockway, et al., The Impact of Rising Water and Sewer Rates on the Poor: The Case of Eastern Massachusetts (National Consumer Law Center: Boston) (December 1991).
- 8. This is not dollar-for-dollar, but it is substantial. While households may not lose \$1 in Food Stamps for each dollar in added income, they may lose \$1 in Food Stamps for each \$3 in added income.
- 9. *See*, 45 *C.F.R.* § 233.20(a)(3)(i)(B)(2) (1991).
- 10. See, State Catalog of Fiscal Year 1990 Low Income Home Energy Assistance Program Characteristics (Department of Health and Human Services, Administration on Families and Children: Washington D.C.) (April 1991).

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