

**High Cost or High Opportunity Cost?  
Transportation and Family Economic Success**

**Margy Waller**

**Abstract:** Research evidence suggests that having a car is a worthwhile investment in better outcomes for low-income families. Recent reports quantify the additional money required to own and operate personal vehicles, as compared to the lower cost of traveling on public transit. However, this method of accounting fails to consider the fact that poor workers without a car may not be able to search for or accept a better-paying job because public transit doesn't go there, causing these workers to lose lost income or benefits as a result. This report outlines opportunity costs experienced by transit-dependent poor households, and concludes that when all costs are considered along with benefits of private vehicles, it makes sense to press for more assistance and policies that reduce car ownership costs for poor workers.

The typical parent who leaves welfare for work earns about \$8 an hour. Many are eligible for publicly-funded work supports like child care, food stamps, Medicaid, and the Earned Income Tax Credit, but few poor families get all the support they are eligible to receive. In addition, as they struggle to meet family needs, poor parents face transportation complications, including lengthy commutes on public transit. For these financially stressed families, the cost of buying and maintaining a car can create difficult financial tradeoffs. Yet, the opportunity cost of going without one weighs heavily on these poor households.

In poor households with at least one car, transportation takes up about 23 percent of total expenditures, just slightly more than higher income households. Nevertheless, most seek access to a car. In addition to reducing commute time and improving employment and housing options, cars provide flexibility for planning trips that require multiple stops, as well as safety when transit service is limited or at night.

Surveys of welfare recipients find that these parents often cannot purchase a car, either because they cannot afford the initial investment or because the cost of maintenance and insurance is prohibitive. While only 8 percent of all urban households do not have a car, 27 percent of households with annual incomes below \$20,000 do not. Moreover, the fact that a household has access to a vehicle does not mean all adults of working age have reliable access to the car. Members of poorer households are likely to have to share a car, while non-poor households tend to have more than one car for each potential driver.

---

<sup>1</sup> This working paper from the Brookings Institution has not been through a formal review process and should be considered a draft. Please contact the authors for permission if you are interested in citing this paper or any portion of it. This paper is distributed in the expectation that it may elicit useful comments and is subject to subsequent revision. The views expressed in this piece are those of the authors and should not be attributed to the staff, officers or trustees of the Brookings Institution.

Still, most people commute by car. In 2000, fewer than 5 percent of workers took public transportation to work, while nearly 88 percent commuted by car. Despite significant public investment in public transit, usage continues to decline as a percentage of urban travel. Nevertheless, poor workers are more likely to commute by public transit – especially bus - than are higher income workers.

The General Accounting Office (GAO, now the Government Accountability Office) determined that during the 1990s almost three-fourths of all welfare recipients lived in central cities or rural areas, while in over 100 metropolitan places three-fourths of all jobs were located in the suburbs. Even when there is bus service, it often does not go to suburban job locations. When public transit does go from city to suburbs, hours of service do not always match commute needs of entry-level workers who are assigned night and weekend shifts. In rural areas, public transportation options are scarce and have limited hours of service. In both cases, public subsidy is relatively high because public transportation can rely heavily on rider fares only when there are many paying riders getting on and off at frequent stops. It would be prohibitively expensive to expand public transportation sufficiently to meet the needs of all low-income workers.

### **The High Cost of Public Transit**

Making do without a reliable car requires poor households to rely on others or on the local public transit system. Public transit can work well for poor workers in dense urban areas, and its advocates proclaim that transit reduces sprawl and congestion, and leads to better air quality. Nevertheless, transit-dependent low-income households often pay a high price for going without a personal vehicle as transit often fails to meet their needs.

Poor workers are more likely to commute by public transit than are higher-income workers. There are income differences across transit modes as well. The poor represent a higher percentage of bus riders than subway riders, and a higher percentage of subway riders than commuter rail riders. While many new jobs are located in the suburbs, public transit rarely takes central city residents all the way to the door of suburban employers. Consequently, a car or another means of transportation is required to take workers from the rail stop to the suburban job. Fortunately, there are still many jobs for entry-level workers in cities providing a rationale to invest in public transit for densely populated urban areas with a high concentration of employers and housing. Unfortunately, low-income riders are often underserved by central city transit systems as policymakers cut funds for heavily utilized inner city bus lines in order to subsidize the more costly suburban commute.

In recent years, transit investment has tended to focus on rail services over buses, and suburban commuters over city riders. A 1981 study revealed that the per passenger public operating subsidy for commuter rail was at least three times more than for bus service. Since then much of the public investment for capital expenses has targeted rail transit, rather than buses. Unfortunately, extending rail service does little to meet the needs of low-income commuters, while improving frequency of service on heavily traveled inner-city bus and subway routes can do more to meet the needs of transit-dependent low-income workers than increasing reverse-commute options.

Thus, it's not surprising that local decisions to invest heavily in rail expansion over improving bus service have created controversy and civil rights objections. In Los Angeles, bus riders successfully challenged the local transit agency's decision to spend 70 percent of its budget on rail services when 94 percent of its customers were bus riders.

Flat fares for public transit present another example of the high transportation cost of being poor. Low-income transit users travel shorter distances than others and thus pay more per mile than higher-income riders, subsidizing the commute of those with higher incomes. Most transit systems use these flat fares, rather than distance fares that adjust to reflect distance traveled.

The effect of access to public transit on the likelihood of employment for welfare recipients is mixed at best. One recent study in six metro areas finds that better access to public transit had no effect on employment for welfare recipients. Other research suggests that access to better public transit service has a small effect on employment outcomes for welfare recipients who do not have access to a car. By comparison, people with cars are more likely to work, and car ownership is positively associated with higher earnings and more work hours. Improving inner-city transit service would better serve those residents who remain transit dependent.

### **Poor Families Pay More for Cars**

Despite obvious advantages over transit dependency, car purchase and ownership can be difficult for low-income households. Surveys reveal poor families are likely to pay a higher purchase price than higher income families buying comparable cars, pay a higher interest rate to finance the purchase, and pay more for insurance.

A Brookings Institution report assessing prices paid for necessities by low-income working families in Philadelphia estimates that car buyers from low-income neighborhoods "pay over \$500 more for the average car than car buyers from higher-income neighborhoods." Furthermore, most households with annual earnings under \$30,000 pay a higher interest rate on car loans than the average rate paid by all households. Some low-income workers do not qualify for mainstream financing and pay much higher interest rates because they must use subprime financing companies for a loan. Others purchase from "buy here/pay here" dealers who offer what they describe as an interest-free car deal, but charge as much as 50 to 75 percent above costs, or include a hefty "service fee".

Some poor car owners also pay more for insurance when providers use credit ratings to set insurance premiums. Insurance industry officials assert that this practice is justified because drivers with poor credit scores are more likely to file claims. A study by officials in Michigan noted that some of the drivers facing higher rates had never used credit, and yet companies penalized them for their lack of credit history. People without a banking relationship often pay bills with cash or a money order and could be charged a higher insurance premium. Drivers whose personal history does not include late payment or default are penalized by this approach.

In addition to use of credit ratings, insurance companies base premiums on location of drivers. Insurance company officials create these “territorial ratings” based on claim experience in the areas. A 2005 review of rating territories in Maryland reveals that the insured’s driving record and experience, as well as how the car is driven, have less impact on the insurance premium than where the driver resides. For example, the report finds that on average a driver living in central Baltimore City pays 60 percent more than the same driver would pay living in Baltimore County. The risk of an accident may be higher in a low-income neighborhood, but all drivers are paying for the higher business cost of offering insurance in that neighborhood regardless of personal driving records. Furthermore, insurance rates are flat, forcing low-income drivers to pay more per mile for coverage since they travel fewer miles than higher income drivers.

Despite the high cost of car ownership to the poor, nearly three-fourths of low-income households report having access to a car. Nevertheless, this is not the same as unrestricted access to a reliable automobile. In addition, cars used by poor drivers are more likely to be older and in worse condition, requiring expensive repairs within a year of purchase. Still, the sprawling nature of many metropolitan areas, work places, and residences virtually requires private vehicle transportation.

### **The Opportunity Costs of Transportation Barriers**

While car ownership increases transportation expenditures, and personal vehicles are currently out of reach for some low-income households, a true accounting of costs must also consider the benefits of car ownership – and the opportunity costs of going without a car.

**Work.** In the last century, residential and employment patterns in metropolitan areas have reversed. In the early 1900s, almost all urban residents lived and worked in central cities, but today two-thirds live in suburbs and three-quarters of jobs are located there too. Meanwhile, over half of metropolitan poor live in center cities and the suburban poor may still live far from work.

Bridging this spatial mismatch is difficult. Work requirements and time-limited welfare assistance policies moved a number of scholars to map the location of welfare recipients and jobs they might fill, as well as public transit options to connect recipients to these increasingly suburban employment opportunities. These maps provide a clear picture of spatial and modal-mismatch between workers and jobs, by illustrating the difficulty of using public transit to link them.

Employers report that transportation is a major barrier to retaining former welfare recipients, or even hiring them in the first place. Some metropolitan places retain many employment opportunities in the central city. However, unless central city transit systems are well designed and funded, transit service in dense urban areas can still be unreliable, infrequent, crowded, or require lengthy commutes.

**Time.** Recent reports reviewing transportation expenditure data fail to take the cost of travel time into account. Low-income households put a premium on time and report that they would prefer to pay more for shorter transit trips than to have lower fares.

Transit travel generally takes longer than travel by car, even in cities with extensive transit service. Averaged across all households, commuting to work takes over twice as long on public transit as commuting by private vehicle--42 minutes compared to 20. Relying on transit makes it quite difficult to take care of everyday family responsibilities that go well beyond the usual to-work-and-back travel. A single mother may need to take one child to out-of-home-care and a second child to school. In addition, most parents go to the grocery store as part of the multi-stop "trip chain" between work, school, and errands. Transit is not suited to this kind of every-day travel because it takes more time than driving.

**Housing.** In her study of Consumer Expenditure Data, Evelyn Blumenberg determined that car ownership is positively related to home ownership, despite the fact that low-income households with vehicles have higher expenditures for transportation. Over 44 percent of low-income households with a car were homeowners, while less than 20 percent of those households without a car owned their home. Furthermore, low-income households with a car spent less on their housing than low-income households without a car. The intersection between housing choice and car ownership deserves more study, as the cause of lower costs and higher rates of homeownership is not clear from these data. Several reports consider the possibility that car ownership provides low-income households with greater housing choice because they can drive to places where land costs are lower and housing is less expensive. Blumenberg finds that low-income car owners are more likely to live in new housing, which she notes may be in suburbs. Other research suggests that the cost of housing around rail transit stations is increasing, pricing low-income households out of that market, and forcing moves to urban areas with less access to transit service.

**Shopping and Services.** Although much of the academic literature focuses on the importance of cars for transportation to work, access to a reliable car can also allow poor parents to drive to the cheapest grocery store and take advantage of the suburban proliferation of shopping and service options with better prices. The market is usually not as competitive in urban neighborhoods of higher poverty, and in rural areas, there's little way to access any of these stores and services without a car.

### **Low-Income Transportation Policy**

Many scholars have found strong relationships between access to a car and employment rates, hours worked, and earnings. A number of these researchers have called for investment in car ownership assistance. The federal government recognizes the investment value of an education and subsidizes post-secondary training with Pell Grants, student loans, tax incentives and more. Federal policy acknowledges the need for child care and health coverage for low-income workers and increased funding for both after the welfare law changed. While these investments fail to meet current need, they signal federal interest in supporting low-income workers with proven and promising services. However, the federal government has taken only small steps toward implementing policy in response to academic research on transportation, car ownership, and employment.

In 1997, as part of transportation reauthorization legislation, Congress and the Clinton Administration created a new fund, “Job Access and Reverse Commute” (JARC), for innovative solutions to transportation problems faced by poor workers. JARC requires local officials to develop locally responsive transportation plans: for example, improving fixed-route transit service can work well in dense urban areas, while demand-responsive options work better in less-dense places. Unfortunately, federal and local agency practice makes it difficult to use the funding for solutions that involve car purchase.

In early 2000, President Clinton proposed a package of initiatives to address transportation barriers. His administration adopted rules making it easier for states to ensure that having a car did not prevent eligible families from receiving food stamps and increased the appropriation for JARC grants. Clinton also proposed making federal funding available to match savings of low-income working families who need a car. Congress did not take up the savings proposal until after the Clinton administration ended and has not yet passed bills containing the provision.

In his first term, President George W. Bush proposed to eliminate the vehicle asset test in the food stamp program to ensure that owning a car was not a barrier to eligibility. However, Congress did not pass that proposal and the administration has not renewed it.

Left to manage the transportation dilemma with limited federal support, many state and local governments have supported creation of car ownership programs. There are now at least 160 programs supporting car ownership for low-income households. Some programs use donated cars repaired by welfare recipients newly trained as mechanics; others purchase cars at auction or assist welfare recipients with purchase decisions while subsidizing auto loans. These are all small programs, generally requiring a financial contribution from participating families.

Local entrepreneurs who create these programs are a long way from meeting existing need for automobiles. State and local budget decisions threaten funding for car programs. In recent years, programs in Arizona, Georgia, and New York lost all or most of their funding in budget cutbacks.

Perhaps because these programs are relatively new and small, to date there is no experimental research using control groups and random assignment to assess the impact of car ownership programs. However, a recent evaluation of a subsidized car ownership program in Vermont using models to control for other factors finds that the program leads to statistically significant increases in both employment and income. Earned income increased by about \$220 per month, approximately two-and-a-half times higher than earnings prior to receipt of the car. Even after controlling for other effects, the researchers determined the impact of car ownership was between \$124 and \$127 per month, while individuals were 19 percent more likely to have earned income after getting a car. The researchers find that the cost of the car to the program is made up within a few months, as earnings replace welfare cash assistance.

Other researchers have controlled for the fact that the relationship between car ownership and employment outcomes could result from a third factor; after implementing these controls, these researchers find that the relationship persists. More formal evaluations would provide valuable

information about effectiveness of the public investment in car-ownership assistance on employment and measures of family well-being, in addition to assessing the effectiveness of particular approaches.

New public investment would highlight transportation barriers and evaluate programmatic responses. A bipartisan Senate proposal would allow Congress to appropriate up to \$25 million for each of the next five years to fund a national competition for grants to run programs that “improve access to dependable automobiles” for low-income families. A similar stand-alone bill in the House of Representatives would authorize up to \$50 million per year and expand options for state and local providers to match Individual Development Account savings for car purchases. Both bills require an evaluation of funded programs.

Congress should pass these bills to provide state and local governments and providers with resources for experimentation and evaluation. Still, many low-income workers will remain transit dependent. Policymakers should support investment and policy that is equitable for low-income transit riders by encouraging use of distance fares and improved service in dense urban areas. Finally, increased funding for Job Access grants should be available to develop and test other local transportation strategies to increase opportunities for low-income workers.

### **Additional Reading**

Blumenberg, Evelyn and Michael Manville. 2004. “Beyond the Spatial Mismatch: Welfare Recipients and Transportation Policy.” *Journal of Planning Literature* 19, no. 2: 182–205.

Blumenberg, Evelyn and Margy Waller. July 2003. “The Long Journey to Work: A Federal Transportation Policy for Working Families.” Brookings.

Fellowes, Matthew and Bruce Katz. April 2005. “The Price Is Wrong: Getting the Market Right for Working Families in Philadelphia.” Brookings.

Garrett, Mark and Brian Taylor. 1999. “Reconsidering Social Equity in Public Transit.” *Berkeley Planning Journal* 13: 6–27.

Glaeser, Edward and Matthew Kahn. 2004. “Sprawl and Urban Growth.” In *Handbook of Regional and Urban Economics Volume 4*, edited by V. Henderson and J.F. Thisse. Amsterdam: Elsevier. p. 2481 to 2527.

Kim, Anne. November 2002. “Taken for a Ride: Subprime Lenders, Automobility, and the Working Poor.” Washington, DC: PPI.

Lucas, Marilyn and Charles Nicholson. 2003. “Subsidized Vehicle Acquisition and Earned Income in the Transition from Welfare to Work.” *Transportation* 30, no. 4: 483–501.

Ong, Paul. March 2002. “Car Ownership and Welfare-to-Work.” *Journal of Policy Analysis and Management* 21, no. 2: 239–252.

Pucher, John and John Renne. 2003. "Socioeconomics of Urban Travel: Evidence from the 2001 NHTS." *Transportation Quarterly* 57, no. 3: 49–77.

Sanchez, Thomas, Qing Shen, and Zhong-Ren Peng. 2004. "Transit Mobility, Jobs Access and Low-income Labour Participation in US Metropolitan Areas." *Urban Studies* 41, no. 7: 1313–1331.

Waldron, Tom. January 2005. "Actuarial Discrimination: City Residents Pay Up To 198% More For Car Insurance Than County Residents." Baltimore, MD: Abell Foundation.

Waller, Margy and Mark Alan Hughes. July 1999. "Working Far From Home: Transportation and Welfare Reform in the Ten Big States." Washington: PPI.