Backyard Burn

Coastal Wildfire Risk Swells with Population

The worst wildfire in more than 30 years burned nearly 20,000 acres and sent smoke billowing over the Grand Strand near Myrtle Beach, S.C., in April after a backyard debris burn spread to an adjacent property.

A wildfire near Myrtle Beach, S.C., burned about 20,000 acres last spring.

PHOTOGRAPHY: SOUTH CAROLINA FORESTRY COMMISSION

No one was injured, but the fire destroyed 75 homes and damaged 101 more. Four thousand people were evacuated.

South Carolina's coastal development has mushroomed since the biggest fire on record, the Clear Pond Fire. In 1976, that fire burned 30,000 acres. The residential boom raises questions about what's become a problem, not just in South Carolina, but across the nation as people settle in retirement or vacation communities near the woods. This fire, for example, threatened thousands of homes. The fire came close to major developments like Carolina Forest and Barefoot Landing.

Most fires are caused by people. South Carolina Forest Protection Chief Darryl Jones says that his agency responds to between 5,000 and 6,000 fires a year, many started by people trying to burn leaves or yard trimmings. Some 88 percent of the 12.9 million acres of forest in South Carolina are privately owned.

As destructive as wildfires can be, especially near residential areas, fires serve to manage forest floor litter and that prevents worse fires. "Wildfires in forests are a part of the natural disturbance regime," says economist Roger Sedjo, who directs the forest economics and policy program at Resources for the Future, a Washington, D.C., think tank. But suppression becomes a priority when human life and development are threatened.

Living near forests presents risks. Sedjo notes that the "insurance market has begun to adapt to these differential risks" especially in the West. It makes more sense for the people whose assets are at risk to bear the cost of fire suppression, so society doesn't pick up the whole tab. Jones says that his agency is working with insurance companies to consider factoring the risk of fires into insurance rates.

To fight the South Carolina fire, the commission got help from local fire departments as well as the United States National Guard. The Guard sent Black Hawk helicopters outfitted with 750-gallon buckets to scoop water from ponds to drop on the blaze. The Federal Emergency Management Agency will help South Carolina pay the Guard. Damage estimates from the fire fighting alone reached $1.5 million. Damage to timber is estimated at between $15 million to $20 million, with about $25 million in damage to homes.

There's ongoing debate about how budgets, for example in the United States Forest Service, are allocated between suppression of wildfire and prevention. Sedjo says that most of the money today goes to fire fighting when "there are obvious things people might do to decrease the probability that their house might burn down."

The South Carolina Forestry Commission is responsible for forest fires in rural areas of the state, and fights them with its fleet of fire tractor-bulldozers that plow firebreaks. Each machine costs about $250,000. Without a buffer zone of about 30 feet to 40 feet between the house and the woods, it's not safe for firefighters. Some materials to avoid include vinyl siding, wood stacked near the home, and certain types of flammable shrubs and mulch.

The fire still smoldered underground well into May, requiring the commission to monitor the area with heat sensors, amid an unusual coastal feature known as the "Carolina Bays." Those are elliptical depressions dotting the Southeast containing peat bogs and flammable material.

—BETTY JOYCE NASH

Lead Foot

Traffic Tickets Rise in Recessions

When the stock market declines and unemployment rises, it might be a good idea to pay a little extra attention to local traffic laws.

Recent studies have found evidence that police use traffic tickets to generate revenue during hard economic times, like when tax receipts flag during recessions. Economists Thomas Garrett from the Federal Reserve Bank of St. Louis and Gary Wagner from the University of Arkansas at Little Rock in a 2006 paper find that the number of traffic tickets rise after state revenue sources fall. The economists studied data from counties in North Carolina from 1990 to 2003.

One implication of these findings is that police face a choice about how stringently to enforce traffic laws. Individual officers can choose whether to pull someone over, issue a ticket (and, to some degree, what the fine will be), or simply warn a driver.

"Clearly the police's primary motive is public safety," says Garrett, "but the revenue motive does appear to come into play."

Once you consider that local police respond to incentives, perhaps it shouldn't be a surprise that the revenue motive induces officers to issue more traffic tickets. "There is a lot of literature out there that suggests local governments are revenue maximizers," Garrett says. "Whether you think that's good or bad, it suggests they'll look for alternative sources for revenue when existing revenue sources become constrained."

This explains why nonresidents of a municipality may be issued more traffic tickets and bigger fines than residents, according to economists Michael Makowsky of Towson University and Thomas Stratmann of George Mason University in a 2009 paper. They studied municipalities in Massachusetts, and compared the outcomes of drivers pulled over for speed violations. Their probability calculations found that out-of-town and out-of-state drivers got more tickets than residents, by 11 and 21 percentage points, respectively. This occurred even though speeders who were pulled over drove the same number of miles per hour over the speed limit, on average.

Their study also finds that municipal officers are more likely to issue tickets after local voters have rejected increases in certain taxes. Then the prospects for out-of-town drivers get even worse: Their probability of receiving a fine after being pulled over increases by 38 percentage points. This effect disappears if voters have approved the tax increase.

This suggests that local police use traffic citations to generate revenue from a previously untapped group: those who pay no local property or income taxes. Also, Makowsky and Stratmann hypothesize that targeting nonresidents could provide a source of revenue from a group that is unable to retaliate come election day. Local police often report to elected officials who would be worried about such an outcome.

"I think if this form of revenue generation was subject to voter approval, maybe the fines would be lower," says Garrett. "But then maybe they'd just have more tickets being issued to compensate for the lower fine."

Raleigh Police Department spokesperson Laura Hourigan says that officers are not instructed to use tickets to recoup revenue during downturns, and that traffic citations are just one aspect of a police officer's job description. "Their responsibilities are to keep our roads safe, our streets safe, and our citizens safe," she says. In her view, it's an old wives' tale that officers intentionally write a greater number of tickets to get more revenue for the city at any particular time, let alone during recessions.

Garrett proposes an interesting way to further test the theory that local police forces consider revenue when allocating resources toward issuing traffic tickets. "If the concern is purely about public safety, I would suggest that all revenue be donated to charity," he says. "If there is no revenue motive, we would expect the number of traffic tickets to stay the same."

— Renee Courtois

Consumer Loans

Law May Constrain Payday Borrowers

The South Carolina General Assembly overrode a gubernatorial veto of a bill that requires the creation of a database to track whether borrowers have outstanding loans elsewhere.

The state will now contract with a third party to provide the database, and that company will be allowed to charge payday lenders a fee to determine consumer eligibility. Companies can pass half of the fee — which cannot exceed $1 per completed transaction — onto their customers, says Jamie Fulmer, director of public affairs for Advance America, the nation's largest payday lender, which is based in Spartanburg, S.C.

The new rules specify that borrowers will be allowed to take only one loan at a time, face a one-day break between each of the first seven consecutive loans and a two-day break between loans after that. The maximum allowable individual loan will increase from $300 to $550.

Both the South Carolina House of Representatives and Senate overrode the veto by a wide margin. Governor Mark Sanford worried the lending database would violate consumers' privacy, according to newspaper reports. He also argued the bill could make people's financial situation worse or drive them to illegal loan sharks and unregulated Internet lenders.

Payday loans are small, short-term consumer loans designed to be repaid in a single lump sum. Borrowers only need to provide a pay stub, bank statement, and driver's license. Lenders typically won't conduct a credit check of prospective borrowers but may investigate whether the applicant has a checking account. If approved, the borrower typically writes a postdated check for the loan amount plus a finance charge, and receives the loan amount in exchange. The lender will hold the check until a future date, in most cases, two weeks. In some states, borrowers can renew loans before their postdated check is deposited, and incur additional fees.

In the Fifth District, South Carolina now joins Virginia in tracking borrowers' activity and the imposition of a cooling-off period between loans for repeat borrowers. No storefront payday lenders operate in Maryland, the District of Columbia, North Carolina, or West Virginia.

Most states cap interest rates on consumer loans, usually in the double digits. Payday lenders often can't profitably operate in states with such laws because their customers are often relatively risky borrowers. Maryland, West Virginia, and the District of Columbia each cap interest rates.

More than 22,000 outlets make payday loans to consumers nationwide. Typical payday borrowers earn between $25,000 and $50,000 a year. Nearly 70 percent of customers are under 45 years old, most are married, and 42 percent own homes. Payday borrowers are typically "early life-cycle, moderate income, credit constrained consumers," write Gregory Elliehausen and Edward C. Lawrence in a 2008 *Contemporary Economic Policy* article.

Lenders in South Carolina currently charge $15 for every $100 borrowed, for an annual percentage rate of more than 400 percent. However, annual percentage rates for overdraft protection, offered by banks, and for cash advances on credit cards can be even higher. Rates for $100 bounced checks including merchant fees, credit card balances with late fees, and utility bills with reconnect fees may add up to finance charges of 1,000 percent.

Consumer advocacy groups condemn payday lenders. They argue payday loans are debt traps that pose hardships for borrowers. However, in a Federal Reserve Bank of New York staff report, Bank economist Donald Morgan and Cornell University doctoral student Michael Strain studied the effects of legislation against payday loans in Georgia and North Carolina. They found residents of both states bounced more checks than residents of states where payday loan laws did not change. The researchers also found more Georgians and North Carolinians complained to the Federal Trade Commission about debt collectors.

Since he started studying payday lending in 2005, Morgan says more states have banned or regulated the practice. The next big research question, Morgan says, is why some states regulate the loans more strictly. "It's not the borrowers themselves who are pushing to have these laws changed," he says.

— David van den Berg

VNTY PL8TS

Virginians Snap Up Personalized License Plates

Who's so vain? Virginia is, according to the American Association of Motor Vehicle Administrators (AAMVA). The organization found in a 2007 survey that Virginia ranks No. 1 in the percentage of all registered vehicles with vanity license plates. They feature a personally chosen number, letter, or symbol combination.

The AAMVA's study estimated that almost 4 percent of all registered motor vehicles in the United States are "vanitized," equaling about 9 million total plates. But in Virginia, about 16 percent of all vehicles have vanity plates. New Hampshire came in second at 14 percent, and Texas was dead last at 0.56 percent.

"People seem to just really love personalized plates," according to Melanie Stokes of the Virginia Department of Motor Vehicles (DMV). "It's a fun way to put your personality on your car. Virginians really have fun with it and the DMV really enjoys administering it."

Why are Virginians so eager to express themselves? According to economist Erik Craft at the University of Richmond, there are several reasons. In 2002, he used data collected from each state, with the help of the Virginia DMV, to figure out which factors affect the number of vanity plates you see on the road.

According to Craft's study, one of the biggest determinants of vanity plate demand is the age range of the population. States with more 25- to 34-year-olds tend to have more vanity plates.

"Younger people want to stand out," Craft hypothesizes. "Single, young people may tend to be at the point where they want to make a statement with their style and attract attention." If a state requires license plates mounted front and back, as in Virginia, then the proportion of cars with vanity plates rises even more, according to Craft's study, because the impact of personalizing your car is even greater.

Craft's study also found that vanity plates and "specialized license plates" are complementary goods. States that offer these specialty-background plates that endorse some university, civic group, or nonprofit organization sell more vanity plates too. By the time a driver has gone to the trouble to order a special background image for his plate, choosing a number and letter combination requires little extra effort.

Virginia offers more than 200 specialty plate styles. Each costs an extra $25, and yet more specialty plates are issued than vanity plates. Stokes reports that specialty plates generate almost $3 million for special groups and universities, including more than $404,000 for the Department of Game and Inland Fisheries through proceeds from the Wildlife Conservationist plate, which is the most popular.

But perhaps the biggest reason that Virginia's drivers are so expressive is that it costs so little. In Virginia, a vanity plate costs only $10 at the time of purchase in addition to the usual vehicle registration fee, with a $10 annual renewal fee. Compare this with Minnesota, which charges $100 initially. The Virginia DMV also estimates that it takes about four minutes to buy your plate online. At prices like these, Virginians have shown more interest in being whimsical on their plates.

Though a state-by-state comparison of vanity plate demand hasn't been repeated since 2007, Virginia residents need only to look around to know whether their counterparts continue to express themselves in abundance. A recent stroll through the Richmond Fed's parking garage one morning revealed a wide range of vanity plates, touting everything from a sweetheart's name to a favorite NASCAR contender. None were Fed related.

— Renee Courtois