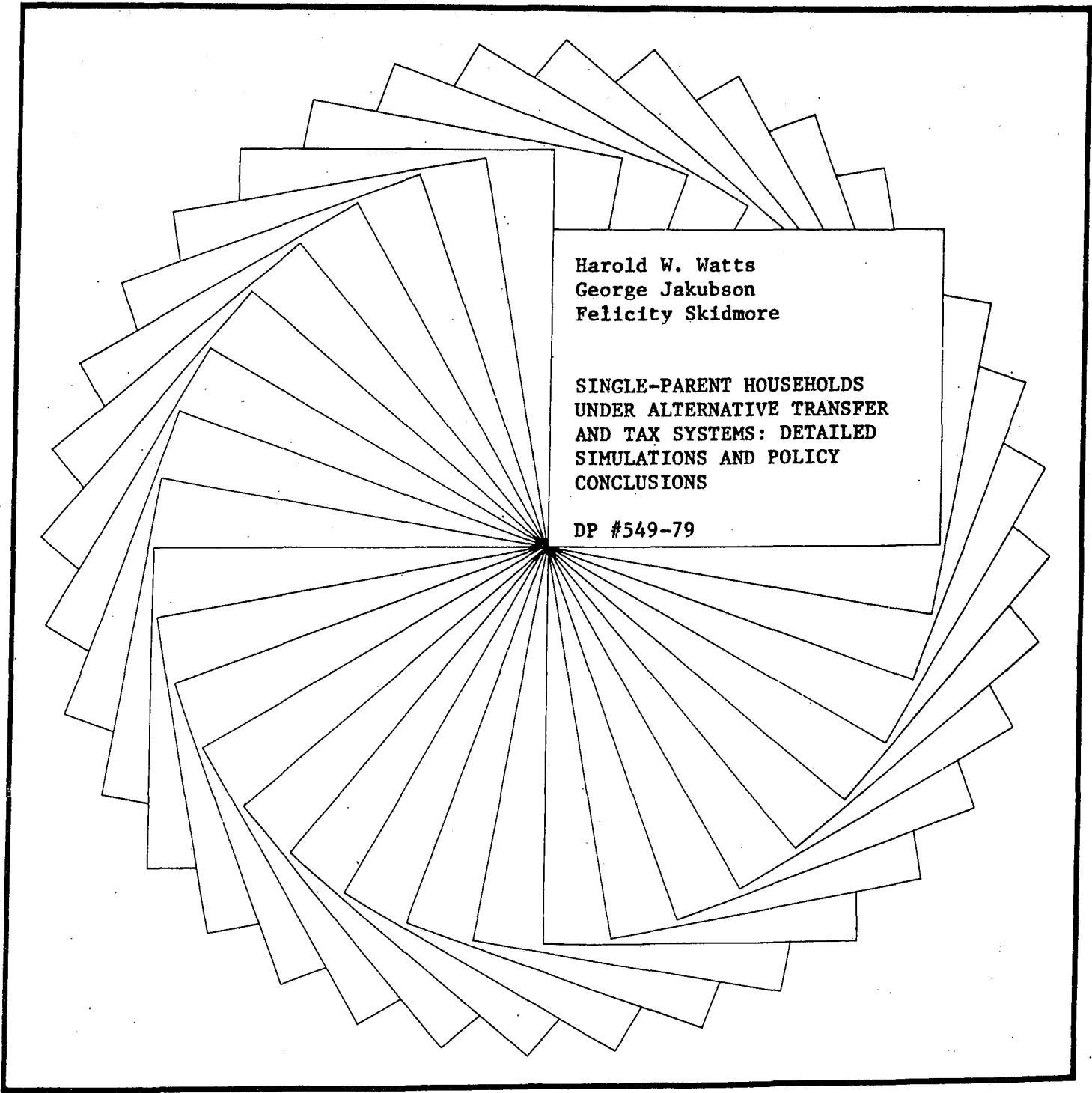




Institute for Research on Poverty

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SINGLE-PARENT HOUSEHOLDS
UNDER ALTERNATIVE TRANSFER
AND TAX SYSTEMS: DETAILED
SIMULATIONS AND POLICY
CONCLUSIONS

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Single-Parent Households Under Alternative
Transfer and Tax Systems: Detailed
Simulations and Policy Conclusions

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ABSTRACT

Because single-parent households comprise a substantial proportion of the nation's poor, social welfare programs have been developed to help them. This paper analyzes the current welfare system and compares treatment of single- and two-parent households under this system to treatment under two proposed reforms of the income maintenance system: the credit income tax and the negative income tax. Microsimulation results show that each proposed reform reverses the traditional preferred treatment now granted the single-parent household by public policy. Categorical additions to the universal reforms are suggested and analyzed. Finally, the paper suggests an alternative institutional approach to the problem of maintaining parity between single and two-parent households, including a new social insurance program and enforcement of support obligations through the tax system.

SINGLE-PARENT HOUSEHOLDS UNDER ALTERNATIVE
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A major reason given by proponents of universal as opposed to income-tested benefit programs (such as a credit income tax) is that they erase invidious distinctions among citizens. Instead of dividing society into various categories--by reserving different programs for different kinds of people as defined by different demographic characteristics, different social ills, different levels of income--the universal programs provide all people access to the same alternatives. Of course, any credit income tax that does succeed in changing the distribution of income by definition has to treat the rich differently from the poor. The point is that under such a program everyone faces the same credit and tax features of the system. It is the combination of the two that yields a different net benefit (or net tax) depending upon one's position in the income distribution.

But categorical distinctions, invidious though they may be, are an important feature of the current system. One group that has been traditionally recognized as requiring special attention is single-parent households, headed predominantly by women. To go from the categorical status quo to a universal income support system would render single-parent households as a group substantially worse off in terms of post tax and transfer income relative to other groups in the population than they currently are.

It is the concern of this paper to examine the distributional consequences for children in one- and two-parent households of the proposed radical reforms of the tax and transfer system introduced by Betson et al. (1979), and possible methods of changing those consequences.

Section 1 discusses why single-parent households need special policy attention and the problems that must be resolved in the design of policies for them. Section 2 discusses how the resolution of these problems over the last 30 years of social welfare policy has led to the current configuration of income support policies. Section 3 discusses the basic distributional consequences of the status quo as of 1975, placing particular emphasis on the differential treatment of households with children depending on whether one or two parents are present. This contrast is shown in two ways. One uses net redistribution functions that show how the net impact of current tax and transfer policies alters the adult equivalent income levels in the one- and two-parent tax units. The second simply shows the distribution of children by adult equivalent income level between children in one- and two-parent units.

The next sections use the same tools to show how a credit income tax (CIT) and a negative income tax (NIT) would modify these net redistributions and distributions. As will be seen, the status quo tends to favor one-parent units at any given level of pre-redistribution resources, and CIT and NIT reform proposals tend to overcompensate for this unequal treatment and, on balance, favor the two-parent unit. Indeed, at maximum benefit levels comparable to those proposed in recent legislation, a large number of one-parent units would end up much worse off than at present. We then develop two alternative benefit programs for single-parent households to be added onto the original CIT or NIT to redress the balance. Section 4 shows how each alternative alters the distributional picture when combined with a CIT. Section 5 does the same for a NIT. Section 6 then explores the distributional consequences of adding, instead, a universal children's allowance scheme (both with and without a tax "clawback" feature) to a CIT or a NIT.

All these simulations take as given the current situation (at least as reported) with respect to alimony and child support payments made and received. The limitations of the data base give us no alternative. The tax rates for the basic CIT and NIT used in the simulations are set so that the programs have a zero net cost (in terms of taxes paid) compared with the status quo. The various policy add-ons in our simulations, however, do require additional funds. We, therefore, also calculate the net cost of each alternative and the amount the tax rate would have to be increased under the various schemes for them to "pay for" themselves. Such an exercise highlights how remedies based on general revenue for the income deficiencies of single-parent households require the taxpaying public to foot the bill for absent parents' lack of responsibility--and produce, as a consequence, perverse incentives with respect to marriage, divorce, and remarriage.

This dilemma leads to our final section, which is a more speculative discussion of (1) policies that might achieve the enforcement and reinforcement of the financial responsibilities of both parents to their children, and (2) the problems that would remain, even then, for the income support system.

1. Why Single-Parent Households Present a Special Problem for Society

Households with children are different from other households in that they are responsible for building the human capital of the next generation. Because children become the citizens, parents, workers, tax-payers, and public dependents of the future, it is in society's self-interest that children be raised so as to ensure their productivity and viability as future adults and parents. Research is demonstrating increasingly clearly that a substantial part of human development, for better or for worse, is related to the house-

hold environment and the material and human inputs that make up that environment. Further, policy initiatives over the last 15 years have made it clear that effective extrafamilial compensation for childhood deprivation is expensive at best and may be impossible.

So far the argument applies to two-parent as well as one-parent households. And, as we know, many children are being brought up in two-parent households that are poor. Why, then, should one-parent households as a group be treated differently from two-parent households of the same income status?

First, single-parent households by definition have only one parent and often only one adult to shoulder all the financial and nonfinancial burdens. Thus, the total productive time potentially available for earning and/or for housekeeping and child nurturing is less for one parent than for two. Most of the children in one-parent households these days have, of course, two parents. But, as a consequence of family breakup, their parents are parts of two separate households. Any sharing of parental responsibility, thus, becomes a matter of interhousehold rather than intrahousehold concern. Even when both partners enter into this sharing in good faith, the interhousehold nature of it creates obvious inefficiencies and frictions. Such a situation also facilitates the abandoning of responsibility by the parent who does not have the day-to-day care of the children.

Added to these factors is the reality that most single-parent households are headed by women. As such, these family heads on average command lower wages in the labor market, first to the extent that they have developed their market human capital less, and second, to the extent that they suffer sex discrimination. And the inequity may be aggravated by incremental discrimination on account of their single parenthood (employer expectations of higher absenteeism, lower reliability on the job, and so forth).

But once it is granted that society should ensure some kind of parity between one-parent and two-parent households, a host of difficult problems arise with respect to what kind of parity and how it should be achieved.

First, although the single-parent household is becoming a much more common occurrence--it has been estimated that nearly half of the children born in the early seventies will live in a one-parent household at some time before they are 18--there is still general agreement in our society that a two-adult household is, other things equal, the preferable environment for the raising of children. Stepparents do, after all, provide important substitutes for absent biological parents in terms other than any contribution they may make to direct economic support (role models, time inputs to nurturing, etc.). Acceptance of this principle implies that any specific benefit system at least should not provide positive incentives for family breakup and that, equally, social policy should avoid erecting unnecessary barriers to remarriage and perhaps should go so far as to provide incentives for minimizing the duration of single-parent status.

Second, children are products of a union between two parents. With current life expectancies, most children will continue to have two biological parents throughout their childhood. It seems reasonable, therefore, that public policy should be designed to promote the responsibility of both parents for their children, whether or not the parents remain part of the same household.

Third, whether mothers (particularly those who are single parents) should work is inextricably entwined with the issue of single-parent support, although there seems no clear societal consensus on how the work issue should be dealt with. Traditionalists and many child development experts feel that children (particularly when young) are better off if their mothers take care of them rather than work for pay and that, if the mothers are single parents, society

should provide the financial support to enable them to do that. Many people, in contrast, feel uncomfortable as taxpayers about paying for a benefit program that enables single parents to stay at home rather than being out "earning their living." And women's rights advocates take the view that women (including mothers) have as much right to undertake paid work as any other adult in society and that a benefit system should not be structured so that it distorts their work choice.

Fourth, many single-parent households are poor, but many are not. Does society have a responsibility only to ensure an income floor, or does society have a further responsibility to achieve parity between one-parent and two-parent households throughout the income distribution?

Finally, at the same time as the increasing incidence of divorce is making the experience of living in a single-parent household much more common and therefore "normal," the prevalence of remarriage is making it a transitory state for most. Thus, although single-parent households as a group are conspicuously less well off than two-parent households, they are a shifting population. Clearly, the shorter the duration of single-parent status, the less important are the disadvantages of that status, the more widely spread and "normal" these disadvantages will be and, thus, the less will be the need for policy intervention.

The manner in which all these problems are resolved determines the shape of public policy toward the single-parent household and, in turn, the distribution of income between children being raised by two parents and children being raised by only one.

2. The History of Public Policy toward Support of Children in One-Parent Households

Concern at the national policymaking level with the plight of children in single-parent households dates back to 1935, when the President's Committee on Economic Security designed the Social Security System which, by and large, remains in place today. It was the time of the Great Depression, jobs were hard to come by, and it was so generally agreed as to need no discussion that what jobs there were or could be created should go to able-bodied men, with first priority given to those with dependents.

The committee was concerned to provide income support to those population groups that were not expected to work--one might go so far as to say expected not to work. The committee saw the "core" of their program as their planning for children (Schorr, 1966, p. 4). Not surprisingly, therefore, one of the groups they chose to assist (in a program called Aid to Dependent Children) was young, fatherless households below a certain income level. Eligibility depended on household income being below a certain level and upon the establishment of long-term single parenthood.¹ Many such households in 1935 were the result of the death of the father rather than merely his absence; this was, in any case, considered the typical single-parent household. In assisting these families, the committee was simply institutionalizing the traditional consensus that widows with children were worthy of help.

As can be readily seen, the assumptions behind this first policy initiative were that mothers should not work in the labor market but rather take care of their children; that if they were too poor to do this on their own, the government should step in and assist them. Since the women were widows, there were no absent fathers shirking support payments to worry about. The problem of possibly perverse incentives with respect to marriage and remarriage went unnoticed.

The form of the assistance program was federal grants-in-aid to the states rather than a uniform federal system. This was because, in addition to the cash transfer components, the committee created social insurance programs (to be financed out of contributions from earnings) that were expected when fully functioning to take care of the bulk of economic hardship--insurance against old age and disability, survivor benefits for widows and other dependents, and unemployment insurance. The assistance segment for single-parent households was thus expected to shrink back into a small residual to become once again the responsibility of the individual states. This was, however, not to be. The 1940s saw shortened waiting periods for establishing single-parent status and the liberalizing of the program to include illegitimate children. They also saw rising birth rates and increasing incidence of illegitimacy and family breakup.

The AFDC caseload and budget grew as the program became by default the only major benefit program available for poor children. But since it was designed for fatherless households, it was only helping children in single-parent households. Thus it came in for increasing criticism and the incentive structure embedded in it came in for increasing scrutiny.

The first major focus for the dissatisfaction was that AFDC (then still ADC) was increasingly going to single-parent households that were not the result of death but of divorce or desertion. This seemed to carry the implication that somewhere out there were fathers who had run out on their parental responsibilities, leaving the bill to be paid by the taxpayer. The discontent resulted, in 1950, in the Notice to Law Enforcement Officials (NOLEO) Amendment to Title IV D of the Social Security Act. This amendment required the states, as a condition for continuing to receive federal funds for state-administered welfare, to notify the law of all cases of women applying for ADC and it required a woman to take legal action against the father of her child in order to be

eligible for aid. To make enforcement easier, all the states subsequently made formal agreements or enacted legislation to make it possible for absent parents to be sued for support wherever they lived, without extradition and without the suing parent having to go to the absent parent's current state of residence (Cassetty, 1978, pp. 7-8).

The next focus of discontent was on the exclusionary nature of the program--restricting aid to those needy families with only one resident parent--in the face of the evident fact that many households with children and two parents were also poor. In 1961, in consequence, further Social Security amendments established the Unemployed Parent segment of what was now called AFDC, permitting, at state option, households with a present able-bodied father to be eligible for aid if that father were unemployed. The possible work disincentives and subsidization of laziness in such a program were much in the mind of public policy makers at this stage of the game. The eligibility for AFDC-UP was thus extremely restricted, requiring among other things a substantial history of prior employment in a job covered by the Unemployment Insurance program. It was also left up to the individual states whether to institute such a program, with the result that some states have never had AFDC-UP and some others have instituted such a program and then abandoned it.

This development also had the effect of focusing public attention on the possible work disincentives for mothers embedded in the AFDC program. "What every family needs most is a wage earner, so the argument goes, and, implicitly, this role takes precedence over others like mothering or home-making" (Bell, 1977, p. 226). In 1967, therefore, came further amendments to the Social Security Act establishing the Work Incentive (WIN) Program, to provide work or training for AFDC mothers, and cutting the effective tax rate.

on any money earned. To facilitate their working, deductions for day care were also allowed and, to a limited extent, subsidized day-care slots were provided. The year 1967 also saw further stiffening of the provisions with respect to absent-parent support by means of amendments requiring state welfare agencies to set up a unit to establish paternity of each illegitimate child receiving AFDC and to secure support from the father once identified.

With minor modifications this situation with respect to support for single-parent households remains in effect today. The Food Stamp program and the earned income credit have lessened but certainly not removed the single-parent two-parent distinction in our public assistance system. Combining AFDC with the other parts of the transfer system (categorical and noncategorical), then, we have the following situation. Households headed by single persons, if their income is below a certain income level, are eligible for a categorical transfer program (AFDC) because of their single-parent status. In return for this, the caretaking parent must sue the absent parent for child support and cooperate with authorities in that effort, with all the invasion of privacy that may entail. The parent with the children is also subject to a work test depending on the ages of the children.

Above the income cutoff level for AFDC eligibility, there is no special public provision for the single-parent household--either with respect to enforcement of child support obligations² by the absent parent or with respect to financial assistance. The nonpoor single parent, therefore, is left to fend for her/himself.

For a subset of two-parent households that are poor, AFDC-UP is available in some states--although the take-up rate is low, compared to an AFDC take-up rate by eligibles of practically 100%. Otherwise, the major assistance program is the Food Stamp program, which, along with the earned

income credit, is available to anyone on the basis of income and family size with no arbitrary income eligibility cutoff.

The poor single-parent household, therefore, is a favored category in the current system, but the incentive structure is in the direction of keeping her (or his) income below a certain level to retain eligibility and keeping her (or his) single-parent status for the same reason. The caretaking parent is also subjected to invasions of privacy with respect to the identity and whereabouts of the absent parent that are not suffered by her or his better-off counterparts but, by the same token, she or he does have public help in efforts to enforce child support obligations.

3. The Distributional Consequences of the Status Quo

The data base for the empirical work in this and the next three sections is a 10% sample of the 1976 Survey of Income and Education (SIE). The data and the microsimulation methodology used are the same as those in the Betson et al. analysis (1979).³ The microsimulation methodology involves a case-by-case approach to the approximately 20,000 nuclear families⁴ in the sample, including a labor supply response to the guarantee and tax rate estimated with data from the Seattle Income Maintenance Experiment.

The focus, as we have said, is on the differential treatment accorded children in one-parent households vis-à-vis children in two-parent households.

In order to make comparisons across households, we needed a way to normalize income to account for differences in household size. One alternative was to look at per capita income. The disadvantage of this measure is that it treats all individuals in the household alike and makes no allowances for the economies of scale commonly assumed to exist in consumption and welfare. The alternative we have chosen is to normalize income by the poverty line. Although this measure has obvious limitations, it has the advantages of not only adjusting for econo-

mines of scale, but also of fairly widespread, if sometimes grudging, acceptance and use.

The poverty lines we used are those that appear in the Current Population Survey (CPS) of 1975, supplemented from the "poverty standard" used in the Food Stamp program to allow differentiation by household size for sizes larger than six.⁵ We used the resulting set of "poverty lines" to normalize income and defined a welfare ratio for each household as measured income divided by our constructed poverty measure.⁶ For most purposes we group the welfare ratios into 18 intervals (upper endpoints are closed):

(1) 0.0 - .25	(5) 1.00-1.25	(9) 2.0-2.5	(14) 4.5-5.0
(2) .25- .50	(6) 1.25-1.50	(10) 2.5-3.0	(15) 5.0-6.0
(3) .50- .75	(7) 1.50-1.75	(11) 3.0-3.5	(16) 6.0-7.0
(4) .75-1.0	(8) 1.75-2.00	(12) 3.5-4.0	(17) 7.0-8.0
		(13) 4.0-4.5	(18) over 8.0

Two weaknesses in the data should be mentioned. First, in order to produce national estimates we are constrained to use a nationally representative data base, here the SIE. A data base of this kind is subject to a phenomenon which might be termed "ships passing in the night":⁷ that is, while data on income and hours are collected for the preceding year (1975), demographic data are given as of the interview date. To the extent that there are changes between the end of the preceding year and the interview date, inconsistencies and possible biases result. Take the case of a hypothetical woman who in 1975 was married with children and did not work in the labor market, who then divorced in January 1976, and, as of the interview date, was a single parent who was in fact working in the labor market. Our data would show her with the correct demographic data, but with incorrect data on income and work hours. Because these inconsistencies tend to balance out, aggregate studies may be little affected. The highly disaggregated, case-by-case approach taken here, however,

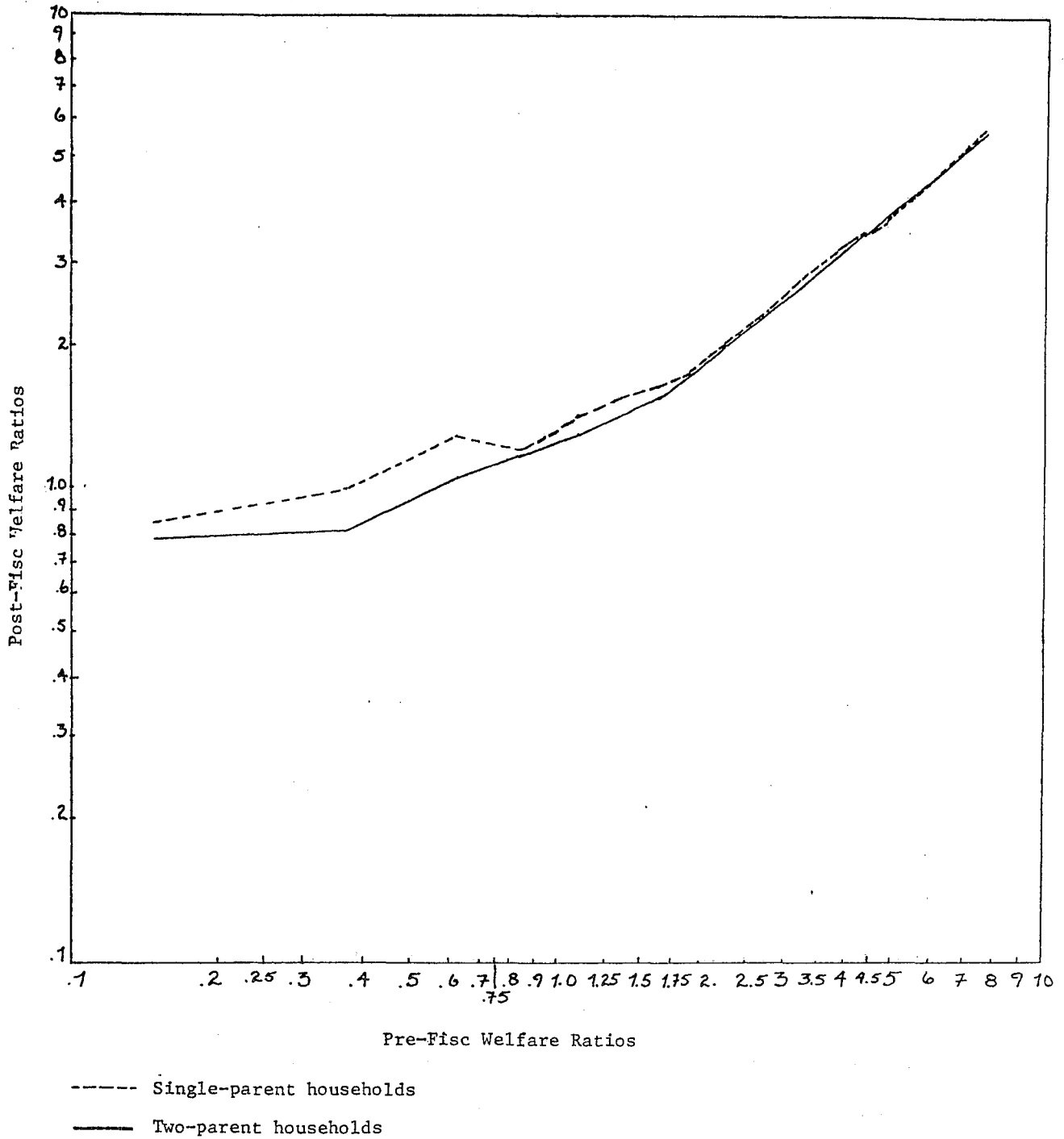
may well be more susceptible to these problems. Second, in addition to the common problems of misreporting and nonresponse on survey data, our use of a 10% sample of the SIE poses potential problems of small sample size, especially for results relating to small subgroups such as single-parent households below our poverty standard.

The income transformation function for the status quo is shown in Figure 1. In this and subsequent figures of this type the horizontal axis shows the welfare ratios before the effects of the tax-transfer system, and the vertical axis shows post-fisc welfare ratios. The diagonal line represents a neutral transformation (that is, no change). The vertical distance between the transformation curve and the diagonal line represents the effects of the tax-transfer system (in percentage terms, since the scales are logarithmic). The mean welfare ratio for the sample population falling into each interval is plotted against the midpoint of that interval.

Logarithmic, or "ratio," scales were chosen for displaying the transformation functions.⁸ This choice highlights the effects at the low-income end of the scale, and that is where our policy concern is greatest. We also will be plotting cumulative distributions of children by welfare ratio on logarithmic probability graphs and have found that the conformity to log-normality is quite good at least for the central part of the distribution.

We see from Figure 1 that for a substantial portion of the income distribution, above welfare ratio (WR) = 2, the transformation functions for single-parent households and for two-parent households are virtually identical. Below that level, however, there is a systematic bias in favor of single-parent households relative to two-parent households. In addition to the basic differences in level of support, there appears also to be a different incentive structure

Figure 1: Income Transformation Function for the Status Quo



facing the two groups. Two-parent households appear to face a transformation function with an essentially increasing slope. For them, the elasticity of post-fisc income with respect to pre-fisc income is increasing as income increases, meaning that earnings gains add more, proportionately, to well-being, the higher the welfare level. Single-parent households, in contrast, face a transformation function with a kink in the neighborhood of $WR = .6$ and then again near $WR = .8$. Very poor households, thus, can make themselves better off by earning more, but at some point they hit a downward sloping range. Possibly this reflects the fact that the income cutoff for AFDC eligibility is lower than the income level at which benefits cease, and also that some units are not covered.⁹ For households above that range, the curve turns back up again, and the elasticity of post-fisc income with respect to pre-fisc income is again positive.

Perhaps we can get a better feel for the magnitude and shape of the differential treatment accorded to one- and two-parent households if we examine the differences between the group means over the first eight intervals of the welfare ratios (WR under 2). Figure 2 plots that relationship. With the exception noted above, the difference is very large for the poorest (for a household of four, $.2 \times \$5496 \doteq \1100)¹⁰ and declines as income rises to twice the poverty line.

Figure 3 shows the status quo frequency distributions of children in one- and two-parent households. Again, figures of this type are plotted with a logarithmic scale on the abscissa for welfare ratios and probabilities on the ordinate. Quartiles of the distributions can be found by finding the appropriate probability on the ordinate, reading across to the curve, and then reading down to the welfare ratio. For example, the median of the distribution of children in

Figure 2; Mean Post-Fisc Welfare Ratio for Single-Parent Households Minus Mean Post-Fisc Welfare Ratio for Two-Parent Households, over the First Eight Intervals

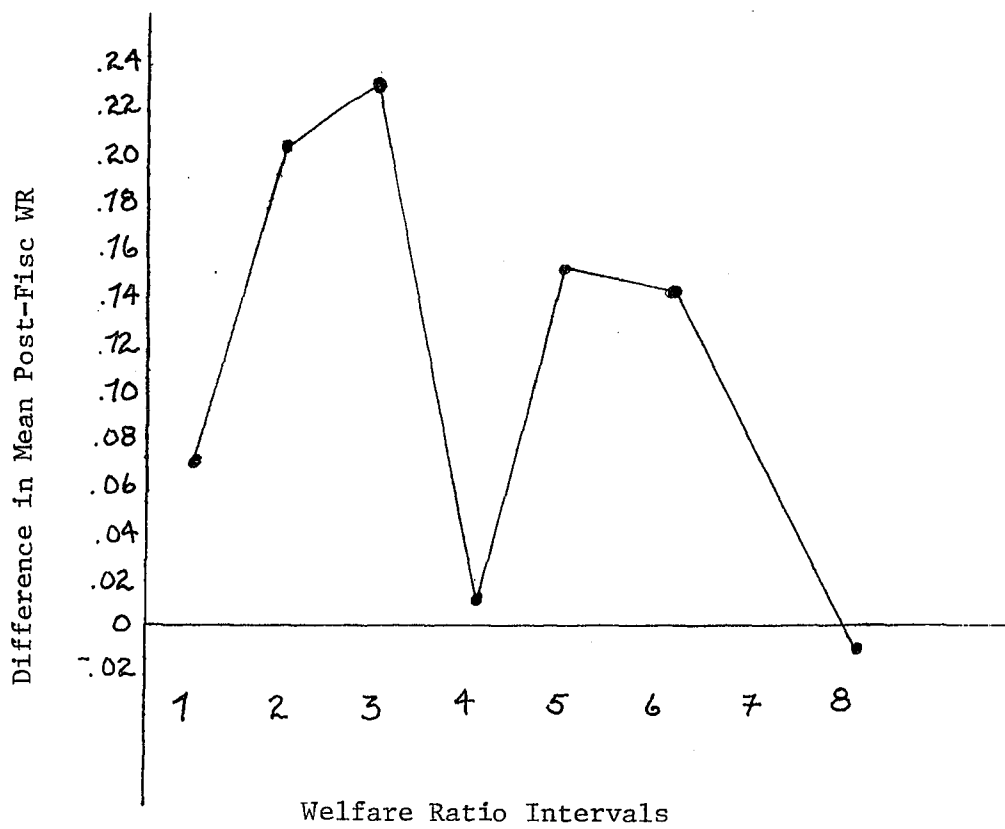
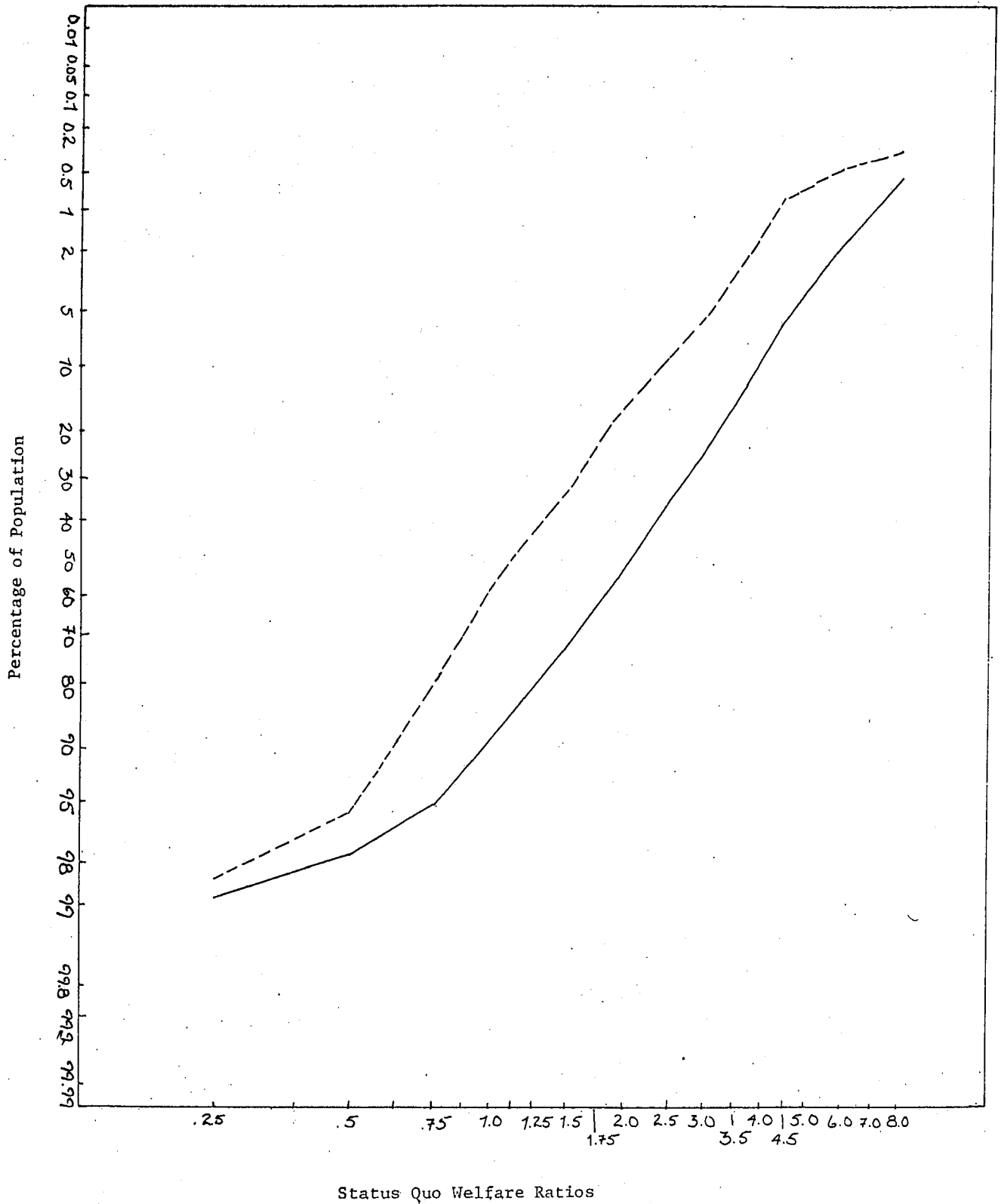


Figure 3: Frequency Distributions--Status Quo



— Children in two-parent households
 --- Children in one-parent households

single-parent households is approximately $WR = 1.2$ and for two-parent households approximately $WR = 2.1$. The flatter the curve, the more unequal the distribution; and the further the curve is to the right, the wealthier the group. Figure 3 shows the familiar result that children in single-parent households are in general poorer than children in two-parent households.

As summary measures we can examine the log-mean and log-variance of the distributions. Table I shows these for the total population as well as for children in both types of household. Table I clearly shows the differences between the welfare ratio distributions of children by household type. The similar variances are reflected by the fact that the two distributions have a similar shape, and the difference in means by the positioning of the curves.

Table I: Log-Mean and Log-Variance of the Status Quo Welfare Ratio Distribution

	Log-Mean	Log-Variance
Total population	.65	.54
Children in one-parent households	.18	.35
Children in two-parent households	.76	.32

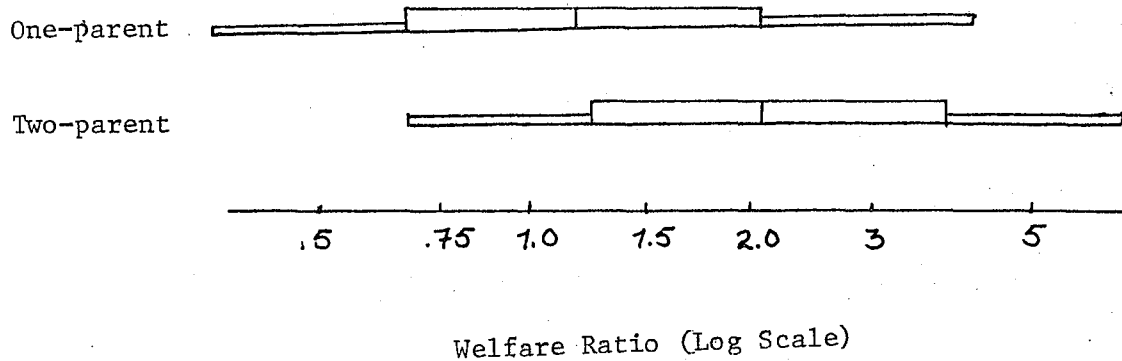
For illustrative purposes we calculate for various ranges the mean plus or minus one standard deviation and the mean plus or minus two standard deviations for each distribution expressed as welfare ratios.

These are shown in Figure 4.

4. Distributional Effect of Credit Income Tax and Two Modifications for Single-Parent Households

The basic credit income tax (CIT) in our simulations is that developed in Betson et al. (1979). The basic credit is calculated to be three-fourths of the

Figure 4: One and Two-Sigma Intervals for the Post-Fisc Welfare Ratio Distribution of Two Kinds of Household



poverty line.¹¹ For every adult in the unit, the credit is \$1374, and for each child the credit is one-half of that. For a household of four with two children, the credit is thus equal to

$$CR = (NUMA) (1374) + (NUMK) (.5) (1374) = 4122,$$

where NUMA = number of adults, NUMK = number of children (see note 10).

A proportional tax on income is then calibrated to produce a program with approximately zero net cost compared with the status quo, and comes out to be 34%.

We have developed two income support alternatives for single-parent households with children to be grafted onto this basic CIT.

Plan I is an age-graded guarantee (credit) that treats a child more like an adult the closer (s)he is to adulthood. Instead of 50% of the adult guarantee, a child under six receives 60%, a child between six and thirteen receives 70%, and a child over thirteen receives 80% of the adult guarantee:

$$\text{Credit} = (NUMA + .6NKLT6 + .7NK613 + .8NK14) (1374)$$

NUMA = number of adults

NKLT6 = number of children under 6

NK613 = number of children between 6 and 13

NK14 = number of children 14 or over

Plan II has a two-schedule add-on for children, which is also age-graded but in the opposite direction. The dollar value of the add-on for a household with a nonworking parent¹² is shown in Table II. For a household with a working parent, the add-on is equal to \$1000 per child under six and \$500 per child between six and thirteen, not to exceed 50% of earnings.

Table II: Dollar Add-On to the Credit for a Single-Parent Household with a Nonworking Parent under Plann II

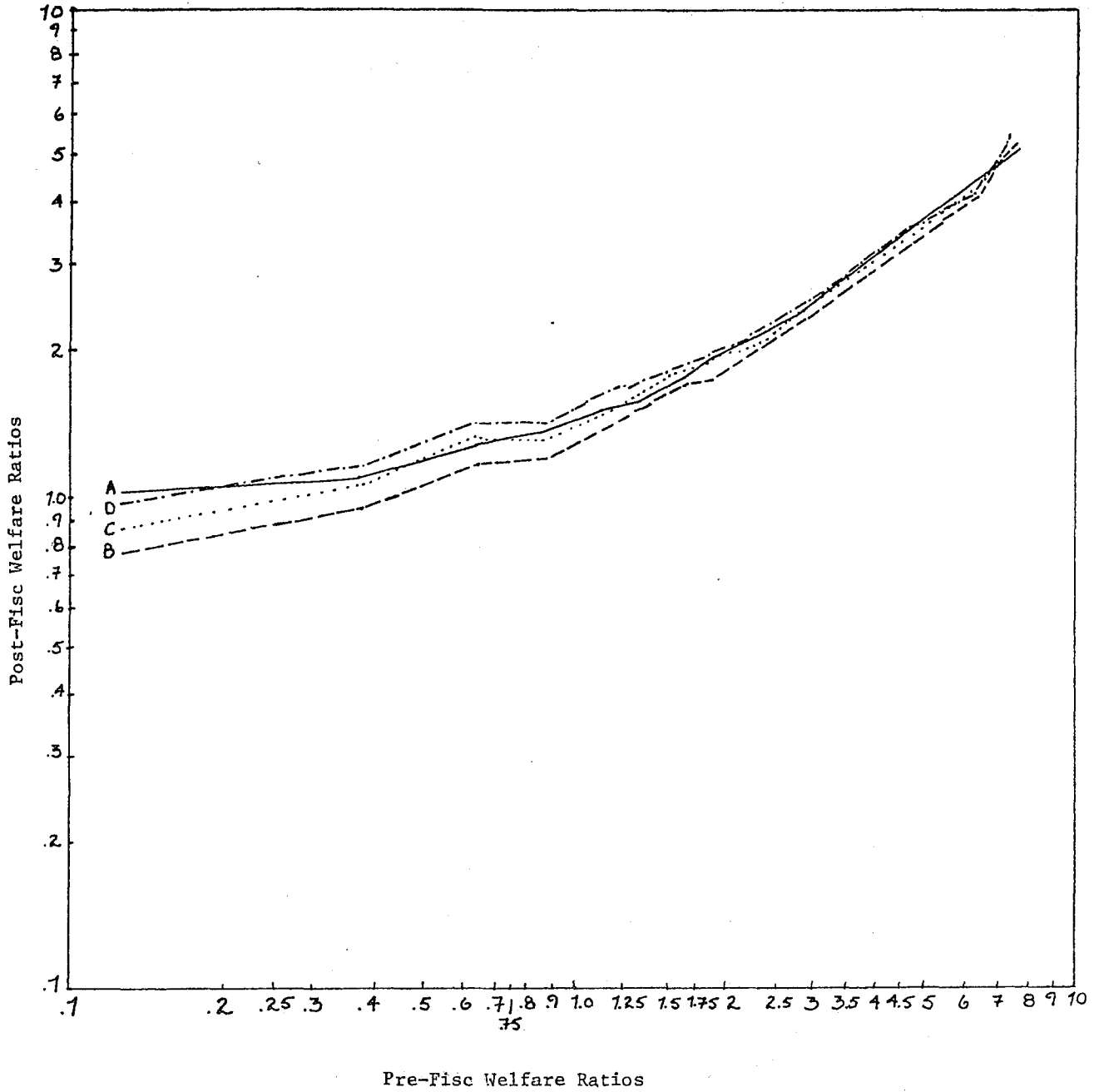
		Children 6 to 13			
		0	1	2	3+
Children under 6	0	--	600	800	1000
	1	1000	1300	1500	1800
	2+	1500	1800	1900	2000

The rationale behind this program alternative is to give the single parent a more effective choice between allocating productive time to market vs. nonmarket activities by giving him/her a larger guarantee when the children are young--the time when it is most difficult for a single parent to join the labor force--and reducing the guarantee as the children grow older. If the parent chooses to work, the increased guarantee could be used to offset expenses for child care and homemaker services; if the parent chooses not to work, the increased guarantee would (partially) offset the loss of market income.

Both these plans are financed by an increase in the positive tax rate sufficient to (approximately) pay for the increased transfers.¹³

Figure 5 shows the income transformation functions for the credit income tax alone (curves A and B) and when combined with Plans I and II (curves C and D).¹⁴ There is a striking difference between the relative treatment of one- and two-parent households under the current system and the unaugmented CIT (cf. Figure 1). The favorable treatment of single-parent households under the current system is reversed; two-parent households

Figure 5: Income Transformation Function for the Basic CIT; also under Plans I and II



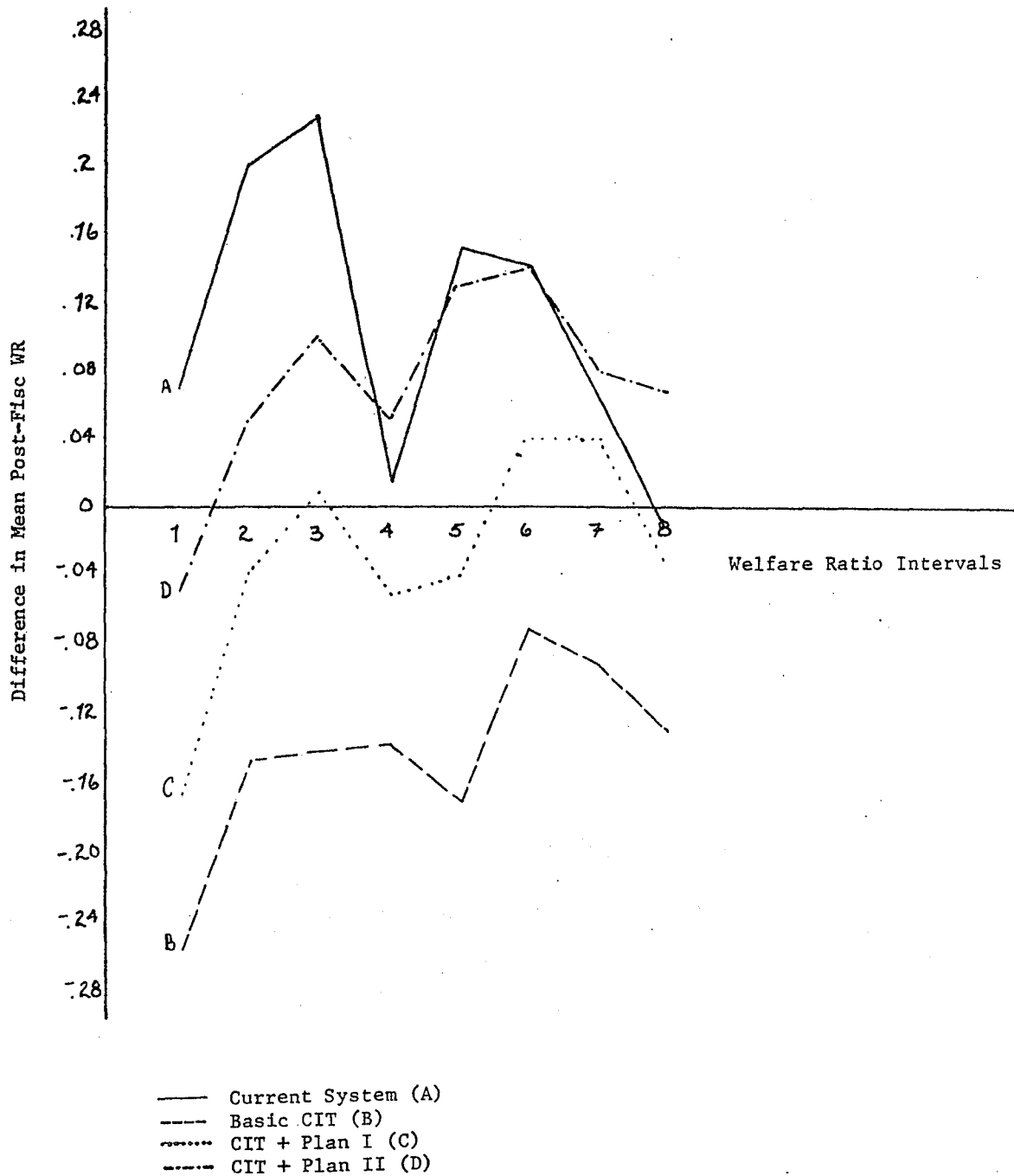
- Two-parent households (A)
- - - Single-parent households (B)
- Single-parent households, Plan I (C)
- · - · - Single-parent households, Plan II (D)

are treated better at every welfare ratio interval. In the upper ranges the transformation functions converge somewhat, although not to the same extent as in the status quo. For two-parent households the shape of the curve is very similar to that for the status quo. The slope is steadily increasing, implying that the elasticity of post-fisc welfare ratios with respect to pre-fisc welfare ratios is increasing with the welfare ratio. The level of support in the lower income ranges is significantly higher under the CIT than under the status quo, as can be seen by observing that the transformation curve lies much higher above the diagonal than in the current system. At the lowest ranges of welfare ratios the difference is nearly .3WR, or approximately \$1700 for a household of four. The slope of the curve is somewhat flatter than before, with a higher intercept; the level of support is more generous, but the elasticity does not increase as quickly.

For single-parent households the transformation function is different in shape as well as level. The kinked curve with a downward sloping segment has been replaced by a curve with a positive slope throughout. The CIT, thus, appears to have removed some of the work disincentive of the current system. The level of support accorded single-parent households, however, is drastically lower, not only than that of two-parent households under the CIT, but than the support level under the current system as well.

Figure 6 plots the differences between mean welfare ratios of single-parent households and two-parent households post-fisc, in a similar manner to Figure 2. The current system is shown as curve A and the basic CIT as curve B. Note that while curve A is almost entirely in the positive range (favoring one-parent households), curve B is entirely in the negative range.

Figure 6: Mean Post-Fisc Welfare Ratio for Single-Parent Households Minus Mean Post-Fisc Welfare Ratio for Two-Parent Households, over the First Eight Intervals

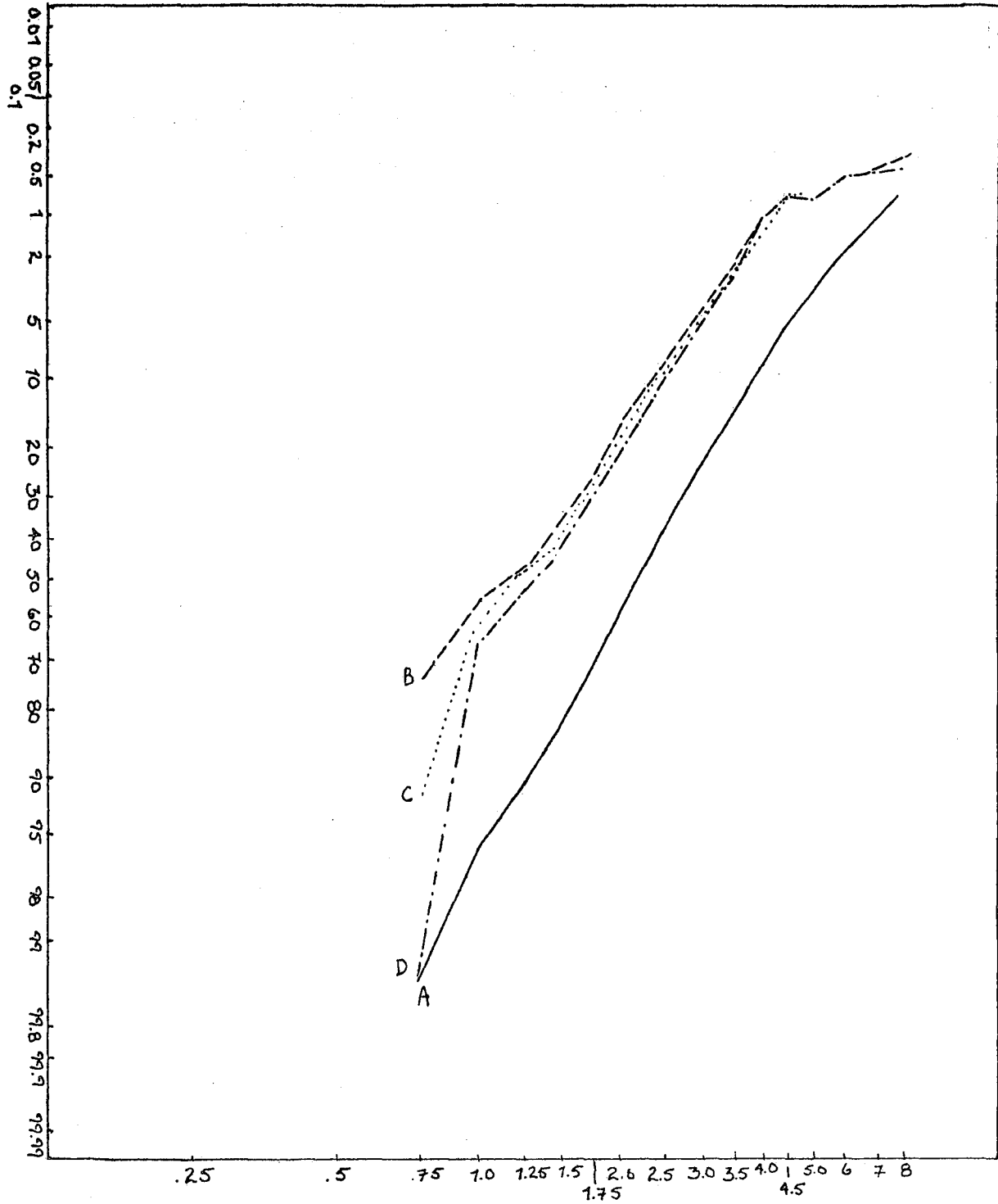


The difference for the poorest households is one-fourth of the poverty line, and it never falls below $-.07WR$ (almost \$400 for a family of four).

Figure 7, the frequency distributions, shows a somewhat brighter picture. No unit is below $WR = .75$ and so, in that respect, the CIT seems to alleviate some of the worst hardship in absolute terms. In relative terms, however, the situation is bad. Curve A represents children in two-parent households; curve B represents children in single-parent households. Note that curve B lies significantly to the left of curve A. Further, the curve is more sloped than curve A, showing more within-group inequality for the single-parent households. Children in one-parent households are treated unfavorably relative to children in two-parent households under the CIT and relative to their treatment in the current system.

The introduction of our Plan I alternative alleviates some of the disparity, as can be seen by reexamining figures 5, 6, and 7. The new income transformation function appears as curve C in Figure 5. For all but the lowest welfare ratios, single-parent households are treated very much like two-parent households at equivalent pre-fisc money incomes and household sizes. There is a small, slightly downward sloping portion of the curve between intervals three and four (ratios between .5 and 1), but the change is so small that it is difficult to argue that it is significant. In Figure 6 we see that while the difference between treatment of one- and two-parent households for the poorest households remains substantial, above $WR = .75$ (above interval 3) the differences seem to fluctuate around zero, with both types of household treated essentially in the same manner. Figure 7 shows that the new frequency distribution, labeled C, for low welfare ratios lies to the right of and is more vertical than the previous distribution curve B.

Figure 7: Frequency Distributions for the Basic CIT and with Plans I and II



Welfare Ratios under CIT

- Children in two-parent households (A)
- - - Children in one-parent households (B)
- Children in one-parent households, Plan I (C)
- · - · Children in one-parent households, Plan II (D)

The reason that the income transformation functions are so similar is revealed when we examine the calculation of the credit. A two-parent household of four has a credit of $WR = .75$. A single-parent household of three with one child under six and one child between six and thirteen has a credit of $WR = .73$. The range of credits goes from $WR = .70$ for a single parent with two children under six to $WR = .83$ for a single parent with two children over thirteen.

Plan II turns out to be much more generous. The new income transformation function is curve D in Figure 5. For most welfare ratios it lies above the curve for two-parent households. This is a plan which, like the current system, favors single-parent households relative to two-parent households. The new transformation function is of the same shape as the previous ones and lies above the other single-parent curves at nearly all welfare ratios. Figure 6 shows the similarity between the relative treatment of one- and two-parent households under Plan II and under the current tax-transfer system. While at the lowest ranges of welfare ratios the differential is not as great as under the current system, the form is similar and the values are similar in the upper ranges of the graph. The credit for a family of three with one parent under this plan ranges from $WR = .64$ for a parent with two children over thirteen, to $WR = .98$ for a nonworking parent with two children under six, to $WR = 1.1$ for a parent working full time at the minimum wage with two children under six.

The effects of Plan II are borne out by an examination of curve D in Figure 7. In the low ranges of welfare ratios the frequency curve is very steep, reflecting a real lessening of inequality among the poorest. It then almost parallels the curve for children in two-parent households, reflecting the fact that one-parent households are generally poorer. Table III shows

summary measures--the median, log-mean, and log-variance--for the frequency distributions of children in each household type for the current system and each of the above alternatives.

Table III: Summary Measures for the Frequency Distributions of Children by Household Type under the Current System and Variations of a CIT

	Children in One-Parent Households			Children in Two-Parent Households		
	Median	Log-Mean	Log-Var.	Median	Log-Mean	Log-Var.
Status Quo	1.14	.18	.35	2.10	.76	.32
Basic CIT	1.10	.20	.27	2.20	.83	.20
CIT + Plan I	1.18	.29	.24	2.20	.83	.20
CIT + Plan II	1.32	.36	.20	2.20	.83	.20

As one might expect, the plans that do more to increase the welfare ratios of single-parent households are also more costly (see Table IV). Plan I costs \$3.75 billion, necessitating an increase in the tax rate from 34% to 34.3% to pay for itself. Plan II costs almost three-quarters again as much, \$6.43 billion, necessitating an increase in the tax rate from 34% to 34.51% in order to produce zero net cost.

Table IV: Summary of Costs

	Plan I	Plan II
Cost with no change in the tax rate of 34% (\$B)	3.75	6.43
Tax rate needed to produce zero net cost (%)	34.3	34.51

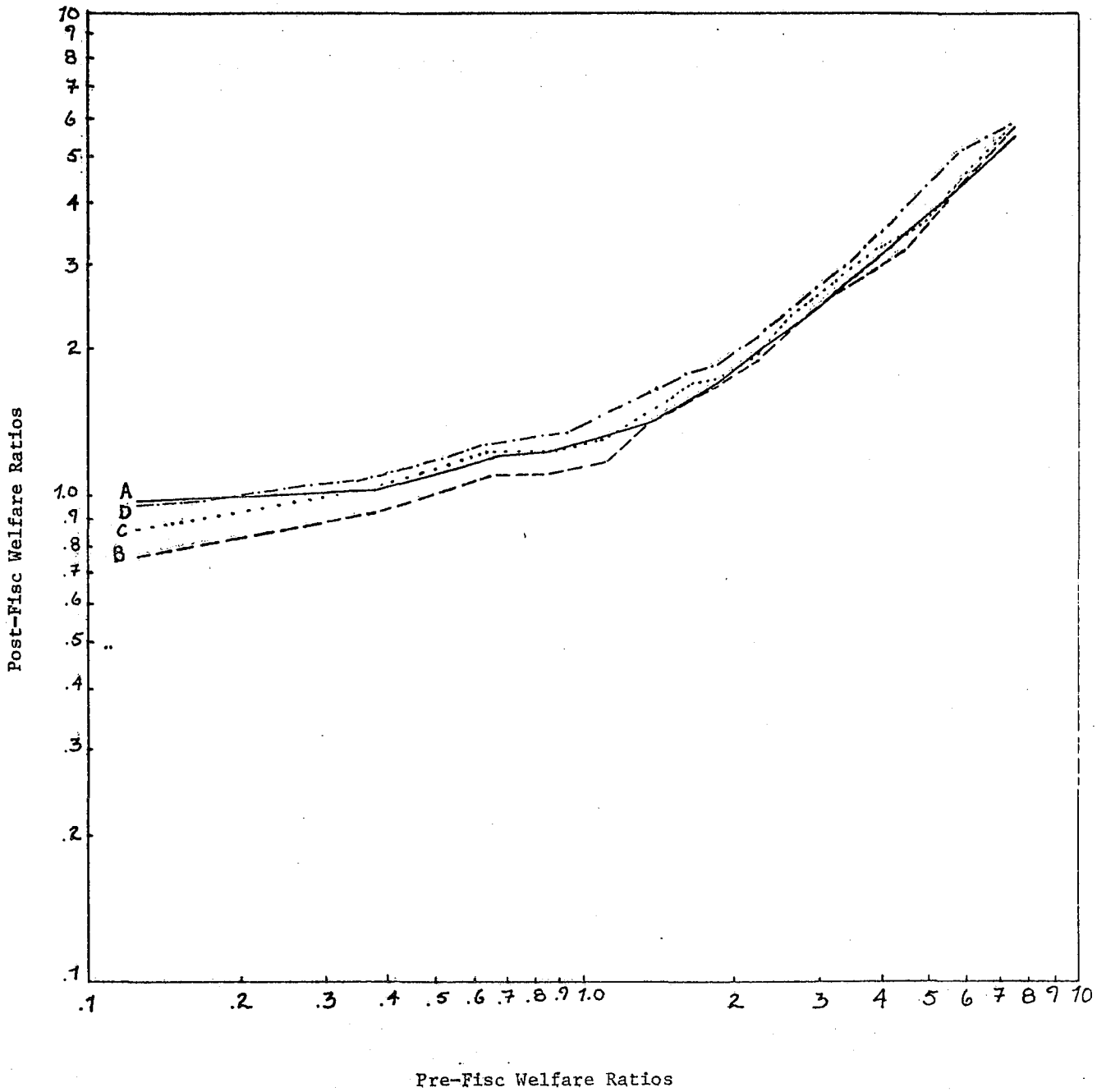
5. Distributional Effects of a Negative Income Tax and the Same Two Modifications for Single-Parent Households

The basic negative income tax (NIT) plan used by Betson et al. (1979), and therefore in our simulations as well, has a guarantee equal to the credit of the basic CIT plan, with a 50% tax rate over the range in which transfers are received and a 23.19% tax rate thereafter (again calibrated to produce no net cost). Figure 8 shows the income transformation function for such a NIT.

Two-parent households face curve A¹⁵ and single-parent households face curve B. The general form of the transformation function under the NIT is very similar to that under the CIT, implying an increasing elasticity of post-fisc with respect to pre-fisc welfare ratios. For two-parent households the level of support for the poorest of them is above that under the current system (cf. Figure 1) but below that under a CIT of similar structure (cf. Figure 5) because the tax rate for those receiving transfer is higher under the NIT than under the CIT (50% vs. 34%). Comparing the curves for two-parent households in figures 8 and 5 we see that the transformation function under a NIT is shaped similarly to that under a CIT; but for the lower ranges of welfare ratios the slope is somewhat flatter, and for the higher ranges of welfare ratios somewhat steeper, than under the CIT. This reflects two differences between the plans: First, the NIT has a kinked tax rate with a higher tax rate in the lower income ranges than in the higher ones. Second, the more narrowly targeted program (the NIT) is less costly overall and therefore requires a lower tax rate in the range of positive taxes in order to achieve zero net cost.

The situation is markedly different for single-parent households. While they face a concave upward transformation function without the kinks of the

Figure 8: Income Transformation Function for the Basic NIT; also under Plans I and II



— Two-parent households (A) ···· Single-parent households, Plan I (C)
 - - - Single-parent households (B) - · - · Single-parent households, Plan II (D)

current system, their level of support is lower than under the CIT, and much lower than under the current system. Although the curves for the two household types converge above the breakeven, single-parent households below the breakeven are at a significant disadvantage. Their transformation function also has a flatter slope at lower welfare ratios and a steeper slope at higher welfare ratios than under a CIT, for the reasons outlined above.

The disadvantage faced by one-parent households relative to two-parent households is, however, less under a NIT than under a CIT, as can be seen by noting the vertical distance between the transformation functions. Figure 9 plots this differential for the status quo and for the NIT. At the lowest welfare ratios one-parent households face a substantial differential, which declines as the welfare ratio increases. Examination of the differences beyond those plotted can be done by following the two curves in Figure 8: Above the breakeven the curve for single-parent households fluctuates around the curve for two-parent households.

In Figure 9 we see that under a NIT the differential treatment between the two types of households is relatively small after approximately $WR = 1.5$ (after the 6th interval) (the breakeven of the NIT), primarily due to the lower level of support under the NIT than under the CIT and the higher tax rate over the range in which transfers are received. The initial difference is just as large, but the higher tax rate narrows the gap, and the lower support level means that there is a smaller range of welfare ratios for which the program-induced differences are important.

The frequency distributions in Figure 10 show that the NIT has succeeded in raising everyone to at least three-fourths of the poverty line. The differential treatment between the two household types is reflected by the fact that the horizontal difference between the two curves is larger at

Figure 9: Mean Post-Fisc Welfare Ratio for Single-Parent Households Minus Mean Post-Fisc Welfare Ratio for Two-Parent Households; over the First Eight Intervals

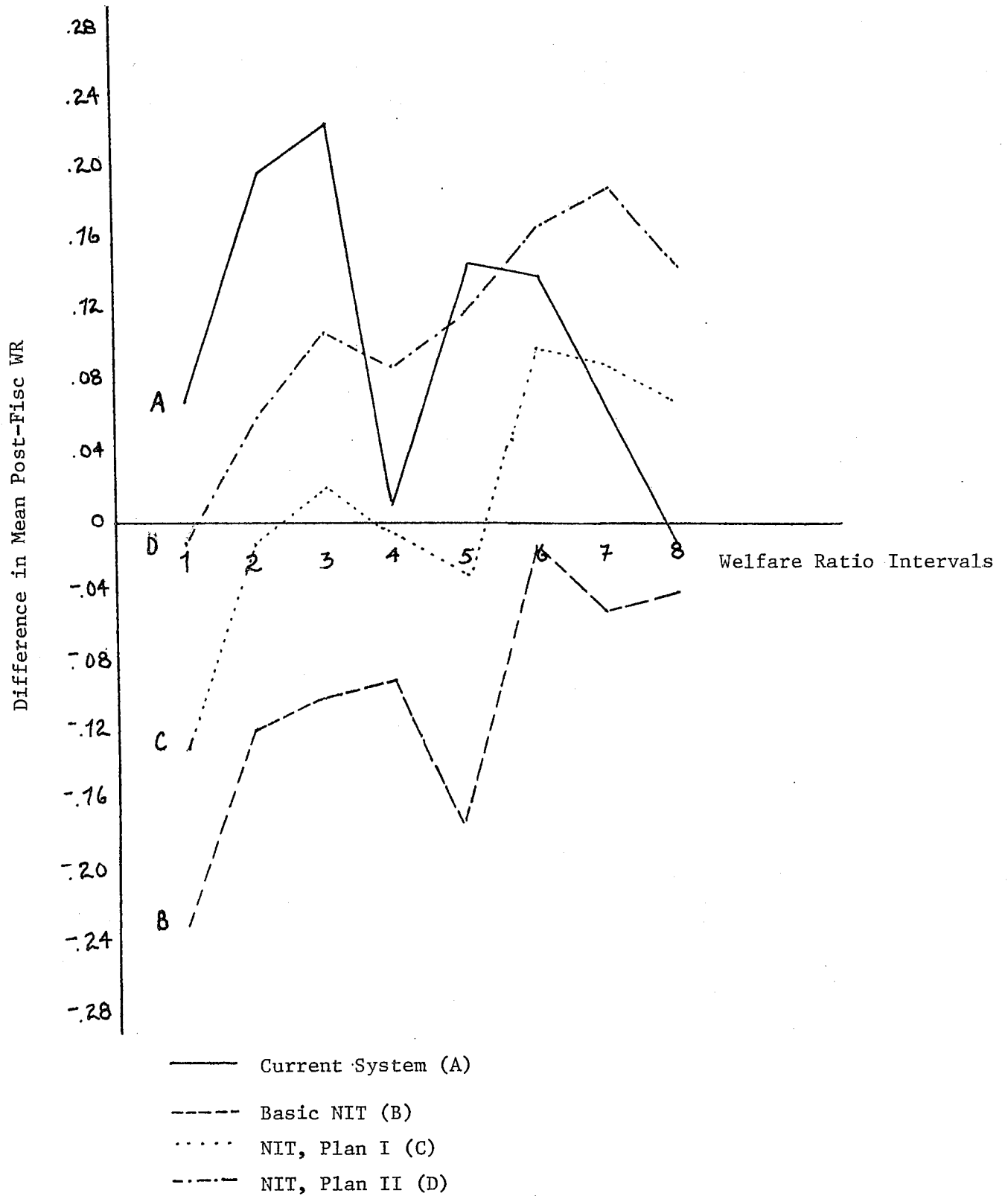
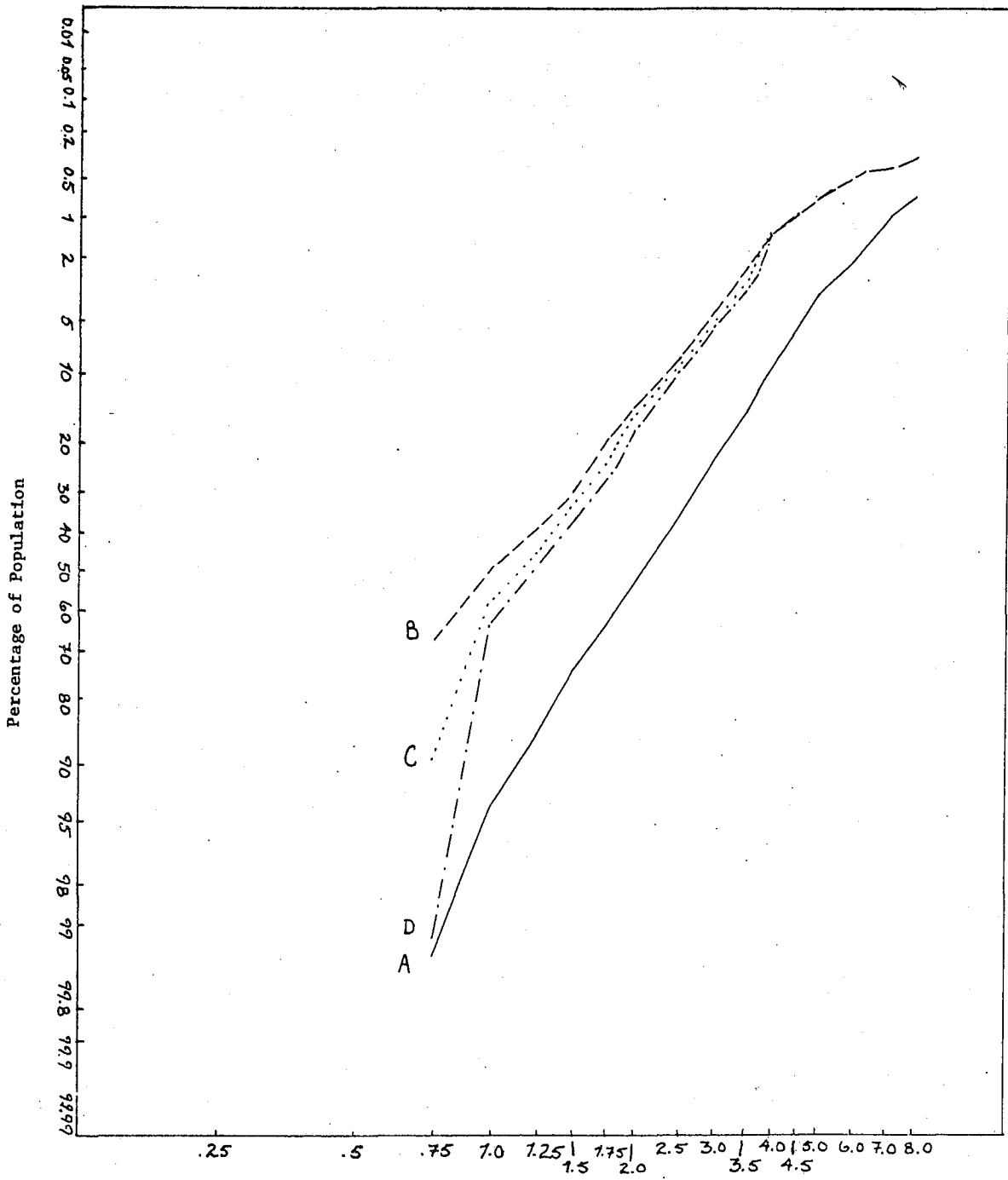


Figure 10: Frequency Distributions for the Same Basic NIT and Plans I and II



Welfare Ratios under NIT

- Children in two-parent households (A)
- - - Children in one-parent households (B)
- Children in one-parent households (C)
- · - · Children in one-parent households (D)

lower percentiles of the distributions. The greater slope of curve B shows greater within-group inequality for children in single-parent households, and the leftward displacement shows that single-parent households are generally poorer. Although the difference in treatment between one- and two-parent households is less under the NIT than under the CIT, the economic well-being of the one-parent household is much lower than under either the CIT or the current system.

When our Plan I is superimposed on the NIT, it alleviates most of the disparity in treatment between families of different composition in the lower welfare ratios. Returning to Figure 8, we note that the new income transformation function, C, almost coincides with the curve for two-parent households in the range $WR = .4$ to $WR = 1.2$. Below $WR = .4$ single-parent households are treated unfavorably, but, as we see in Figure 9, that disparity is quickly eliminated as incomes rise. Between $WR = 1.2$ and about $WR = 2$, single-parent households are favored. The reason for this is straightforward. Since we did not increase the benefit reduction rate, the increased guarantee for single-parent households results in a higher breakeven level of income. Single-parent households continued to receive transfers above the income level at which two-parent households stop receiving transfers. Once the single-parent households are past the range of transfers, however, their transformation function returns to that of the two-parent households.

Figure 9 shows that over most of the range for which the transfer portion of the program is operative, there is no systematic differential between one- and two-parent households. Plan I seems to reduce the disparity for the very poorest (the first WR interval) by a larger amount under the NIT than under the CIT, independent of the level of support. This is due to the tax rate difference, as noted above.

The effects of the Plan I variation are shown in Figure 10 as curve C. In the lower welfare ratio intervals, curve C is further to the right and more steeply sloped than curve B (basic NIT). Plan I thus reduces income inequality among children in poor single-parent households as well as raising their incomes.

Plan II is again more generous. Returning to Figure 8, we note that Plan II returns the pattern of differential treatment by type of family to one qualitatively closer to the current system for the lower welfare ratio intervals. The shape is the same general shape as the others, but the level of support is significantly higher; indeed, for the lower welfare ratios the level of support exceeds that of the current system for single-parent households.

In terms of the differential treatment accorded different household types, the NIT combined with Plan II differs from the other program alternatives we have examined (see Figure 9). Although, like the current system and the CIT combined with Plan II (cf. Figure 6), it favors single-parent over two-parent households for almost the entire range, but the pattern is radically different. At the lowest ranges, the differential, though positive, is somewhat smaller than under the current system. But instead of rising and then falling differentials (which under the current system actually dip below parity at the very highest level) the differential rises systematically through the WR range until the highest, for which it still remains substantial. Returning to Figure 8, thus, we see that curve D lies above curve B almost everywhere and shows no sign of converging to the transformation function for two-parent households.

This plan should have the maximum effect of the plans examined thus far on the frequency distribution of children in one-parent households.

Turning to Figure 10, note that curve D lies significantly to the right of curve B, the distribution under the basic NIT. Plan II reduces income inequality among poor children in one-parent households the most, and has the largest impact on the frequency distribution. As summary measures again, we present the median, log-mean, and log-variance of each of the distributions for each household type in Table V.

Table V: Summary Measure for the Frequency Distributions of Children by Household Type under the Current System and Variations of a NIT

	Children in One-Parent Households			Children in Two-Parent Households		
	Median	Log-Mean	Log-Var.	Median	Log-Mean	Log-Var.
Status Quo	1.14	.18	.35	2.10	.76	.32
Basic NIT	.99	.14	.29	2.10	.79	.24
NIT + Plan I	1.15	.24	.24	2.10	.79	.24
NIT + Plan II	1.21	.32	.20	2.10	.79	.24

The costs associated with the policy add-ons for single-parent households under a NIT are very similar to the costs under the CIT, as shown in Table VI, since the addition to the guarantee moves out the break-even level of income. Plan I costs \$3.7 billion over the basic plan's cost, necessitating an increase in the tax rate in the positive range from 23.19% to 23.7% to achieve a zero net cost. Plan II costs \$6.4 billion and requires an increase in the tax rate from 23.19% to 24.08% to pay for itself.

Table VI: Summary of Costs

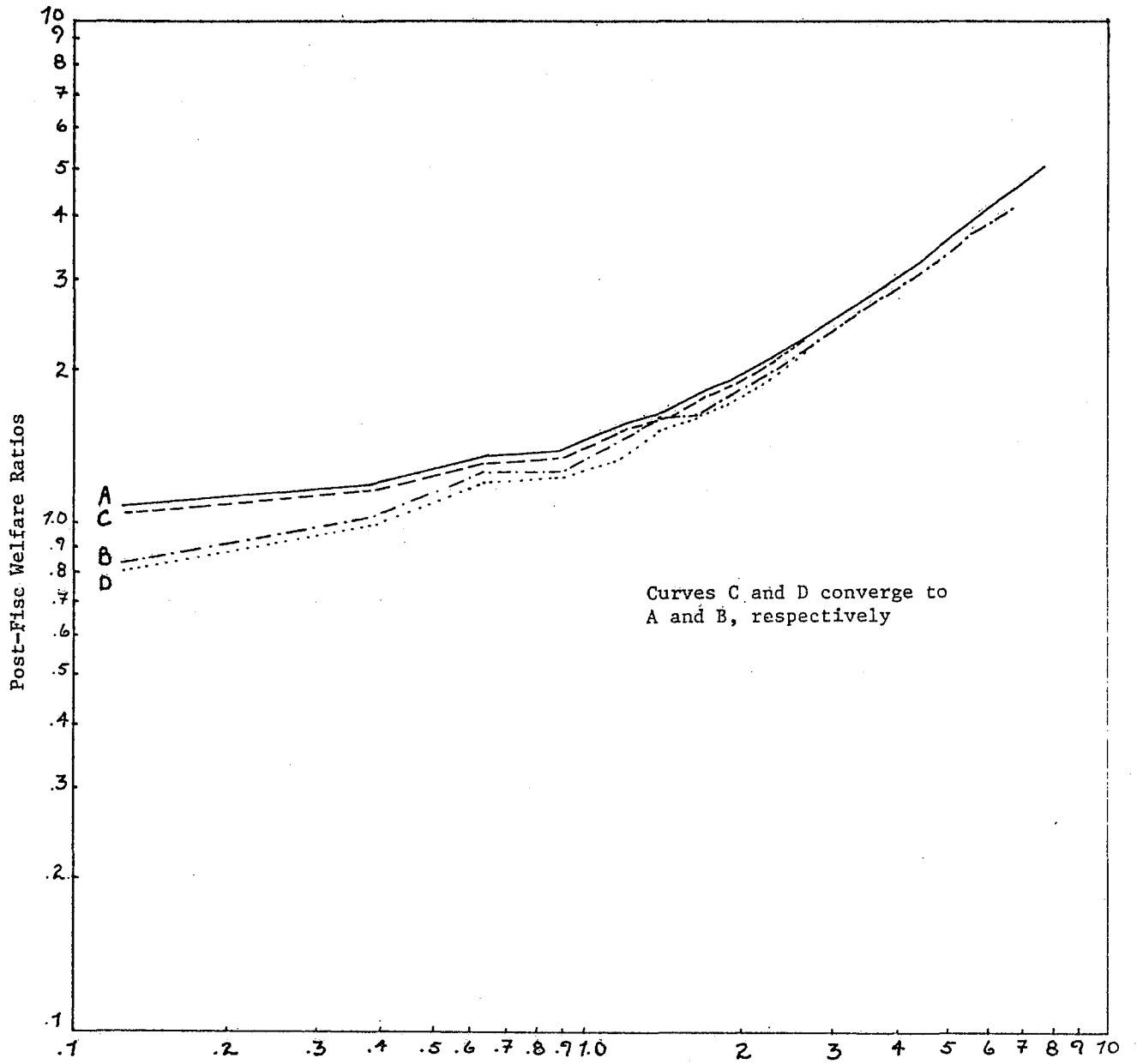
	Plan I	Plan II
Cost with no change in the tax rate of 23.19% (\$B)	3.7	6.4
Tax rate needed to produce zero net cost (%)	23.7	24.08

6. The Distributional Effects of a Children's Allowance Combined with a CIT and a NIT

The basic children's allowance scheme used in our simulations (referred to as Plan III) is an age-graded credit similar to Plan I, but paid to all households with children. Children under six receive the basic 50% of the adult guarantee; children between six and thirteen receive 65%, and children over thirteen receive 85% of the adult guarantee. We also simulate the same children's allowance with the addition of a "clawback" (Plan IV)--under which, for each dollar of earnings, an additional tax of 10% is imposed on all families with children until the original children's allowance has been entirely recouped.

Figure 11 shows the income transformation functions for one- and two-parent households under a CIT combined with Plans III and IV. The shape of the transformation curves is still concave upwards; we therefore have no severe disincentive effects for either group. The curve for two-parent households under the CIT with Plan III, at all but the highest welfare ratios, lies above their transformation curve under the basic CIT (cf. Figure 5), but this higher support level is coupled with a flatter slope for the lower

Figure 11: Income Transformation Functions for CIT
with Plans III and IV



Curves C and D converge to
A and B, respectively

- Pre-Fisc Welfare Ratios
- Children in two-parent households, Plan III (A)
 - - - Children in one-parent households, Plan III (B)
 - · - · Children in two-parent households, Plan IV (C)
 - · · · Children in one-parent households, Plan IV (D)

welfare ratios. The addition of the clawback (Plan IV) has the effect of slightly lowering the support level for the lower welfare ratios; above about $WR = 1.5$, however, the plan is indistinguishable from Plan III. These same remarks generally hold true for single-parent households, except that for them there is a flat portion of the transformation curve between $WR = .6$ and $WR = .9$. The level of support accorded one-parent households under Plan III is slightly above, and under Plan IV approximately the same as, under the current system.

Figure 12 shows the income transformation functions under the NIT modified by Plans III and IV. The shape of the income transformation function for two-parent households is similar to that under the basic NIT (cf. Figure 8) but somewhat flatter over the lower welfare ratios. The level of support is higher for two-parent households than for single-parent households under Plan III for most of the welfare ratio distribution, and under Plan IV until about $WR = 1.5$, as before. The level of support under Plan III is higher for two-parent households than that under the current system until about $WR = 3$, and under Plan IV until about $WR = 1.8$ (cf. Figure 1). Two-parent households are hit harder by the clawback mechanism in the neighborhood of $WR = .4$, and one-parent households in the neighborhood of $WR = .8$. Single-parent households are accorded a level of support generally below that in the current system under both plans.

The differentials between one- and two-parent households are plotted in Figure 13 (the current system is included for reference). The children's allowance reverses the favored position of one-parent households under the current system whether combined with the CIT or the NIT, and whether or not there is a clawback. The differentials are smaller for the NIT in the upper ranges of the graph, but there is no clear pattern in the lower ranges. The

Figure 12: Income Transformation Functions for NIT with Plans III and IV

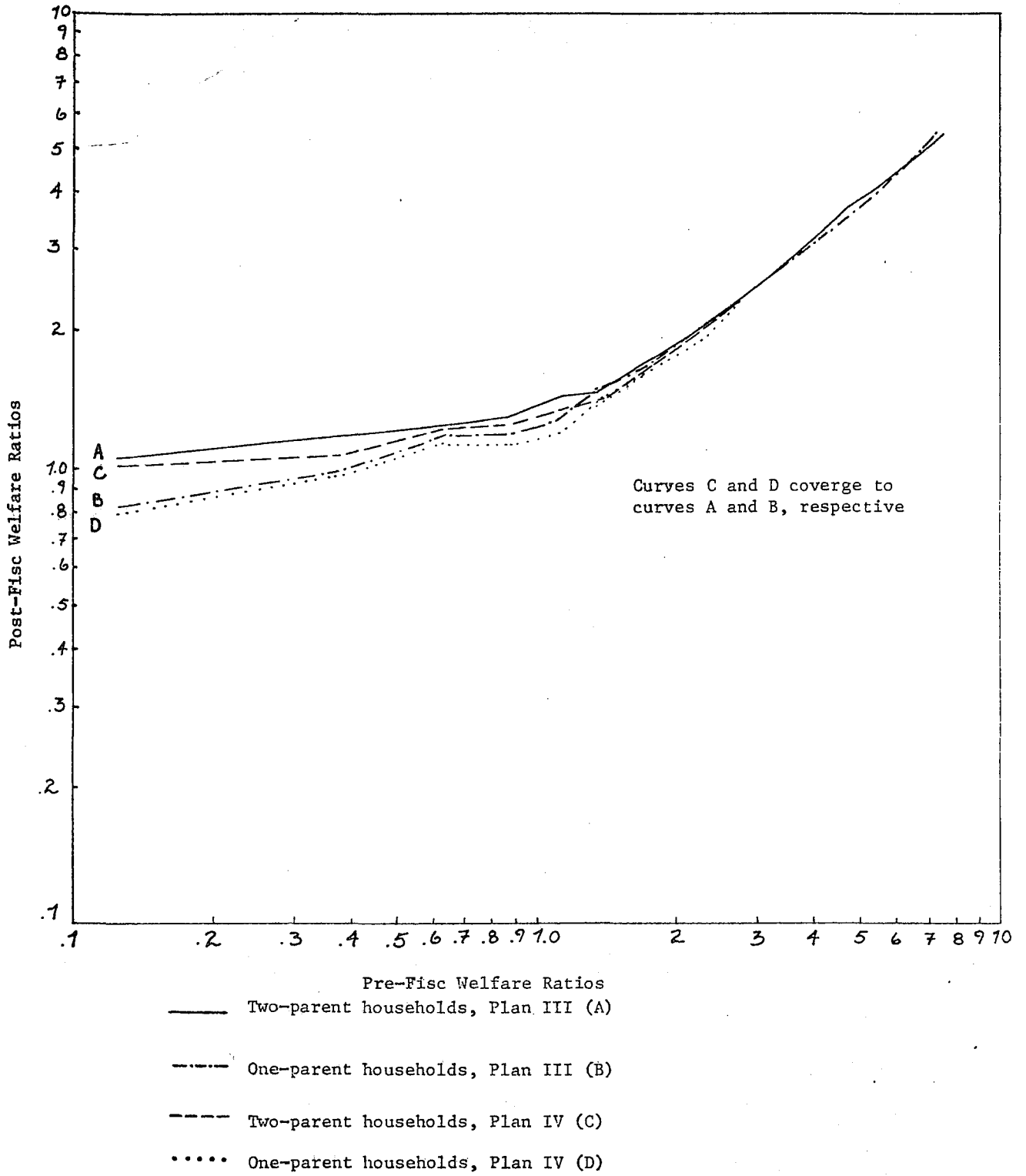
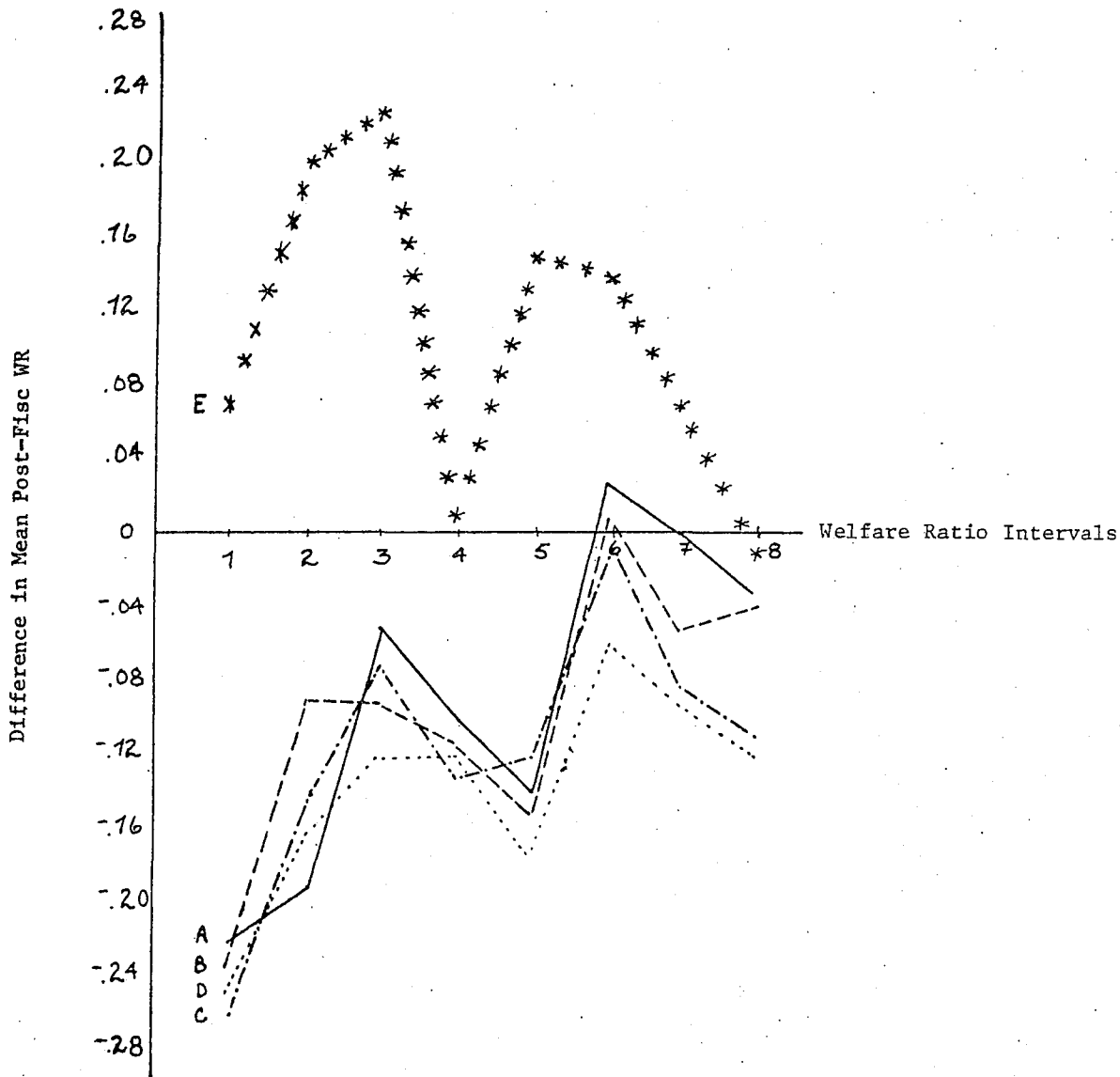


Figure 13: Mean Post-Fisc Welfare Ratio for Single-parent Households Minus Mean Post-Fisc Welfare Ratio for Two-Parent Households, over the First Eight Intervals



— NIT, Plan III (A) - - - - - CIT, Plan III (C)
 - - - - - NIT, Plan IV (B) CIT, Plan IV (D)
 ***** Current System (E)

Table VII: Summary Measures for the Frequency Distributions of Children by Household Type under the NIT and CIT with Plans III and IV

	Children in One-Parent Households			Children in Two-Parent Households		
	Median	Log-Mean	Log-Var.	Median	Log-Mean	Log-Var.
Basic CIT	1.10	.18	.35	2.10	.76	.32
CIT + Plan III	1.11	.26	.25	2.14	.85	.18
CIT + Plan IV	1.04	.23	.24	2.10	.84	.19
Basic NIT	.99	.14	.29	2.10	.79	.24
NIT + Plan III	1.23	.21	.26	2.23	.81	.22
NIT + Plan IV	1.17	.18	.25	2.19	.80	.23

children's allowance with the clawback does seem at the lower welfare ratios to create less disparity between household types than the children's allowance without it.

We present summary measures for the frequency distributions of children in the two types of family in Table VII. Under the CIT, Plan III raises the median welfare ratio slightly but raises the log-mean substantially for children in single-parent households, and also raises the log-mean for children in two-parent households. Plan IV seems to have a larger negative impact on children in single-parent households than in two-parent households (this is because single-parent households are generally poorer and thus more of them are affected). The effects under a NIT are in the same direction but of larger magnitude for plan III, since the NIT is a more targeted program. Single-parent households do better under the basic CIT than under the CIT with modification IV, but do better under the NIT with Plan IV than under the basic NIT.

The clawback mechanism does have the advantage of lower costs. The CIT with Plan III requires an increase in the tax rate from 34% to 35.15%, but under Plan IV requires an increase to only 34.15%, since most of the additional cost of Plan III is taxed away by the clawback. Similarly, the NIT with Plan III requires an increase in the tax rate from 23.19% to 25.14%, but under Plan IV needs an increase to only 23.44% to pay for itself.

7. The Remaining Dilemma and a Possible Solution

As sections 3, 4, and 5 have shown, for a given level of pretransfer income normalized for family size, a noncategorical CIT or NIT would reverse the current policy of favoring one-parent households relative to two-parent households. While the universal nature of such reforms would place a more

reliable floor under the resources available to households in general at any politically feasible maximum benefit (guarantee) level, they would at the same time make one-parent households worse off absolutely than they are under the current income support system. Our simulations have also shown how specific categorical add-ons could approach horizontal equity between one- and two-parent units and even restore the existing bias.

Such categorical solutions, however, severely compromise the very features that make a noncategorical approach attractive. These are (1) that the size of the credits depend only on age and (2) that the tax rate is constant over a wide enough range so that the tax does not depend on either the unit to which the income is attached or the time period during which it is received. This means that there are no incentives to misrepresent or alter one's living arrangements or the timing of one's income receipts. In consequence, it removes a major reason for public authorities to invade individual privacy in search of fraud. An additional advantage of the CIT, though not the NIT, is that the somewhat lower marginal tax rates over the low and moderate income range reduce the work disincentives of the current system for that population.

The reintroduction of a categorical add-on brings back the very "separation bonus" the NIT and CIT were designed to remove. There are many questions about the meaning of the "independence effect" of NIT benefits on divorce and separation that apparently shows up in the Seattle-Denver Income Maintenance Experiment data. But they do, at a minimum, highlight the apparent sensitivity of family stability to the terms on which transfer payments are made and suggest a cautious attitude toward automatic benefits for one-parent households.

The dilemma is sharpened when one notes that the credit tax does little toward narrowing the differential between the distributions of

children in one- and two-parent units. While it tends to reduce the dispersion in each group, the overlap of the distributions is actually reduced. The categorical augmentation reduces the disparities at the low end, but leaves the distributions quite distinct.

The root of the difficulty may be that we are trying to design a public policy to offset the consequences of a failure of our various institutions to define and enforce parental support responsibilities. We are trying to treat the symptom, not the cause. It can be, and has been, argued that the present welfare system reinforces abandonment of responsibilities of the absent parent. But this is certainly not the only culprit of the current system. There is evidence of very haphazard and ineffective administration of child support arrangements in our courts as well. And this phenomenon is by no means limited to low-income parents. Whether because of the apparent willingness of the public to assume minimal support for children when it is not forthcoming from an absent parent or because of the lack of effective sanctions against such abandonment, the consequences are evident in the disparity of the economic well-being distributions of children in one- **versus two-parent households**. Further and more direct evidence of this is provided in the work of Sawhill and associates (Jones et al., 1976) and Cassetty (1978).

We regard it as extremely questionable whether any equitable and politically acceptable solution to the problem of assuming adequate resources for children in one-parent households can be found unless more effective attention is given to the issue of private responsibilities. Sentiment for better enforcement of child support agreements is testified to by the recent laws providing federal resources and mechanisms for locating parents who are delinquent. But the problem

goes deeper than the enforcement of court orders. The issue of the relationship between adequate support and the economic status of the two parents is unresolved. The judgments being enforced may themselves be inadequate in view of the relative economic status of the parties involved. There also remains the issue of whether the children of a subsequent union should have first or second priority relative to those who claim support from an absent parent. Finally, should the custodial parent be required to take such an aggressive role, often at considerable cost in time or money, in order to secure what should be automatically due a child from a parent?

We are led toward a search for policies that can more effectively define and enforce the primary responsibilities of parents for the support of their children, recognizing that there will remain a role for a public transfer system, but that the goal of such a system should be to pursue the advantages of universality as much as possible. If the flow of support payments from absent parents at all income levels can be increased substantially, the disparity in the economic status of children could be substantially reduced and a part of the need for public support would be eliminated. But the goal should not be limited to the reduction of net public transfers to one-parent households. The appropriate objective is an approach to full sharing of the responsibility for support of children by both living parents, within the limits of their respective abilities to provide that support. If this goal can be achieved then universal and noncategorical redistribution policies can be applied without prejudice to children living with one parent, with both parents, or even with neither parent.

Empirical analysis of these issues is hampered by the shortage of data which permit linking one-parent households with the absent-parent's unit.

The Michigan PSID has been exploited and has yielded some very important insights, even though the sample is small and may be biased toward those with the stability and predictability that permits continued participation in a longitudinal panel. Even these data, however, suggest that if one adopts the approach of equalizing the economic status of both households, absent parents are currently paying much less than they should. Fully one-third of absent parents in the top quartile of earnings, for instance, report no contributions to their children's support! Further evidence should be forthcoming in the future. The Census Bureau has expanded its coverage of support and alimony receipts in the SIE conducted in 1976 (their analysis of which is expected sometime this year), and has more ambitious plans for future waves of the CPS, Decennial Census, and SIPP.

But it may be questioned whether more or better data are really necessary in order to consider whether the basic idea of joint parental responsibility should be more vigorously enforced. The facts we have presented are enough to establish that the most minimal principles of joint responsibility are widely and flagrantly violated. Do we need more evidence in the hope of finding some merit in a right of unilateral abandonment? Such a right has never been declared, of course, but it is being widely exercised, and it is in direct conflict with the right of each child to the support and maintenance from two parents. It seems to us that it is impossible to achieve reasonable goals of adequacy and equity for children living with only one parent without a much more effective system for enforcing parental responsibilities. So long as it is relatively easy for parents to abandon those responsibilities and thereby shift the burden to the public, that same public is unlikely to endorse programs that can give children in one-parent families adequate economic support

without at least some of the restrictive, degrading features of the current system.

If, however, there could be general confidence that parental responsibility was not being evaded, and that public programs were not being abused, there would be some likelihood that those children who are most in need (in all types of families) would receive more generous public support. The only other alternative consistent with equal treatment would be for the public sector to assume full responsibility for the economic support of all children, and that does not seem a solution that is consistent with widely held values in this society or that has any precedents.

Consequently, we suggest that first priority should be placed on development of policies that can effectively assure that each child has access to the resources of both parents provided they are living and not totally disabled. The following combination of proposals is put forward as a way of accomplishing this objective in the context of a fully integrated credit tax system, but one that preserves the basic structure of benefits for children with deceased or disabled parents that are provided under Social Security and veterans' programs. Some of our proposals could even be introduced within the current income support system.

The basis for any such policy formulation in our view must be explicit recognition and systematic application of the principle that every child has an inalienable right to support from two parents. Stated so simply, the principle seems to us completely consistent with basic values shared by virtually everyone in our society. That this "right" is violated in the case of death or permanent and total disability of one or both parents is recognized by the current transfer system, which regards such deprivation as the basis for a claim to public resources. Indeed, the law even allows claims for such

support to be assessed on third parties if the death or disability resulted from willful or negligent behavior. Where this right is violated by willful or negligent behavior of parents in the form of nonacknowledgment of parenthood or abandonment, however, the current system takes a different attitude. The only recognized claim to public resources is means-tested--i.e., paid only if the custodial parent has a sufficiently low income--and any support obligation by the absent parent is frequently defaulted on totally or in part. There is also no remedy for the child when an act of commission or omission by the custodial parent, such as failure to identify the other parent or seek support, violates this right.

Our policy proposal has three parts.

First, publicly agreed upon normative standards of child support should be developed to guide both public policy formulation and family court proceedings. A possible method would be for a blue-ribbon commission, perhaps presidentially appointed, to examine the issues and develop such a standard. One issue that must be tackled is how to define equitable sharing of the total resources available to custodial and noncustodial parents in providing material support for children. Sawhill and associates (Jones et al., 1976) have considered this issue and recommended that per-adult-equivalent disposable income be equalized across split households. This seems to be one defensible principle; there may be others. Additional issues relate to how support over time should reflect subsequent changes in, for instance, realized earnings of each parent and their separate current family responsibilities. A second kind of standard is needed that sets a minimum of support that would enable a one-parent household to reach as high a level of living as our policies effectively set as a social minimum for a two-parent family. The latter might be interpreted, for instance, as the per-adult-equivalent net income from employment and transfers

for a two-parent family with one earner employed at the minimum wage. Although this minimum might well lie below the base amount of support provided for children of deceased parents, the payments to survivors should, in any case, be considered as a closely related issue.

Second, some form of child support insurance (CSI) should be added to our social insurance portfolio. This program would assure that any child not living with both parents would receive at least the minimum support defined above (paid to the custodial parent or other guardian). The benefits of this program could be defined on a simple per-child basis or they could be defined in a schedule that reflected ages and/or numbers of children. In any case, the CSI would reduce these benefits at the rate of, say, 70% of any child support payments actually made by the absent parent(s) up to the "break-even" level at which the benefit became zero. Otherwise, the child support payments would be nontaxable to the recipient (i.e., not included as income); they would not, in any case, be deductible by the paying parent. Income should be taxed once in any case, and with a flat-rate tax it does not matter where. But taxing at the earning source would eliminate in the normal case the need for a reporting requirement for support payments received. For beneficiaries of the child support insurance, however, separate (and perhaps quarterly) reports of support received could be required.

Third, and finally, the obligation to support one's children could be enforced universally and impartially by an entirely separate mechanism. We recommend that the annual income tax return (which would in any case be universally required of adults in a credit income tax system) include an affidavit of compliance with support standards for each child registered as the responsibility (via biological or adoptive parenthood) of that adult.

The support standard could be met in the following ways:

- (a) by living with and sharing a household with the child,
- (b) by complying with a court-approved support agreement,
- (c) by making payments at least equal to the minimum support standard defined above,
- (d) by an appropriate combination of the above, each covering distinct periods of time and together covering the entire year.

For each child not supported in one of these ways, a surtax would be assessed on all taxable income. This "penalty" tax would be strictly additive to the regular flat tax rate for the credit tax scheme, but would be limited so that the combined rates would never exceed, say, 70%. The assessment of this tax would not be connected with either the fact or amount of any child-support insurance benefits being paid for such children, nor would the amount of surtax affect the benefits paid for such children. Clearly it would be in the interest of the noncustodial parent to pay the surtax only if that amount were smaller than the cost of complying with the support standards. But, in the case of low-wage parents, the surtax would at least assure that there is a non-zero cost of procreation even if the resulting children cannot be or are not supported directly.

Effective administration of these provisions might well require a registry of parenthood which would associate the social security number (SSN) of each adult with the SSN of each child the adult is responsible for, either on natural or adoptive grounds. Such a registry could be maintained (or built up) by assigning an SSN to each newborn child (or immigrating child) and linking that number and name to the SSN of both parents. With such a registry the annual tax forms could include an affidavit for each child by name and/or it would be possible to carry out audits of completeness in reporting on parental responsibility.

Designation of the father of a newborn would normally be made by the mother, subject to appeal by the named father.¹⁶ There may be cases where the mother refuses for some reason to designate the father, preferring to retain full responsibility. It is not clear whether this will be a large enough problem to warrant special provisions to discourage such refusals. It is clear, however, that it constitutes straightforward violation of the child's right to support from two parents. How that right should be balanced against rights to privacy of the mother or anonymity of the father is a complex problem, but our strong inclination is to give priority to the child's rights if there is a major conflict. The system itself could provide effective confidentiality and protection of privacy for the noncustodial parent in cases where the support standards are met.

With a system of this kind in place it seems possible that a universal credit tax could carry the main burden of vertical redistribution without recourse to categorical treatment of one-parent households. Children deprived of support of the second parent, whether because of death, disability, insufficient income, or just plain cussedness, would be assured at least a minimum of support in lieu of (or to supplement) the parental contributions. The official standards for "normal" support, together with a universal system for penalizing evaders, should reduce the disparities at the moderate and higher levels of living, and also reduce the claims made for public support. Finally, there would be a firm basis for confidence that parents, including absent ones, cannot evade or abandon support responsibilities, and that the residual burden of the child support insurance is resulting in benefits to those whose needs are real and not the result of willful or fraudulent behavior.

It is unfortunate that we do not have data that permit simulation of the consequences of a system like the one we have outlined. Comparisons of cost and impact would be very useful, but even with appropriately linked household data, estimated effects would have to rely on conjectures about changes in private child support transfers. There is no obvious reason why the support insurance scheme would cost any more than the age-modal benefits (Plan I) that were simulated. Although the minimum support levels might produce larger benefits for those without any support from the absent parent, the amounts would be smaller for those who receive some support under our Plan I because of the present low effectiveness of child support enforcement. The added revenues from the penalty surtax might well be very small, but they would provide enough potential revenue to make the pursuit of evaders worth the time of IRS auditors. On balance, the support enforcement system should not require major new expenditure on staff beyond what would be required for a credit tax. A child-parent registry might require substantial initial expenditures, but it could yield immediate economies in establishing a credible and fair support enforcement process. And long-run benefits would accrue in the form of more equitable sharing of resources and responsibilities among parents, which in turn would reduce the distributional disparities that exist and reduce the number of cases that require supplementation from public funds. The expectation that appropriate support levels will be defined and effectively enforced may also have an effect on the rates of formation and dissolution of families, although we have no good basis for saying how much (or even in what direction). The independence of the prospective single-parent with custody might be somewhat enhanced, but the limits of independence for the noncustodial parent would be sharply reduced. Remarriage rates for custodial parents might well be

increased by more adequate and universal child support, but the absent parent might be less inclined to remarry if new family obligations did not diminish responsibilities for support of the original family. But again, the criterion should not be whether more or fewer marriages are made and/or dissolved. The basic trends in family formation are affected by many other influences, and we do not recommend trying to manipulate all of them. But it is important that public transfers not be used to implicitly subsidize family dissolution and the abandonment of responsibility that has frequently accompanied it.

8. Conclusion

The burden of our argument in this paper has been that, in the absence of public policy intervention, single-parent households have lower incomes than two-parent households, although there are strong arguments that their financial needs, for a given household size, are greater. Current public policy, in the form of AFDC, does recognize the validity of these arguments--not only by redressing the balance at the low end of the single-parent household income distribution but, in fact, by giving them preferential treatment.

Universal reforms like the CIT, and noncategorical but income-tested reforms like the NIT, preserve and in some income ranges exacerbate the income inequality of the current pretransfer situation. So do universal child support programs like the children's allowance.

We have developed two program designs that, if added onto noncategorical programs like the CIT and NIT, would restore the preferential status of the single-parent household within the framework of a universal transfer system. Such alternatives, however, also bring back the dilemma that any preferential treatment for single-parent households creates incentives for family dissolution and the abandonment of financial responsibility for one's children.

remove the incentive to desert one's children financially when a marriage breaks up and equalize more effectively the post-split economic well-being of each parent's current household.

Such a system would not, however, completely take care of the argument that single-parent households need additional money income to compensate for the lack of a second parent. Within the context of noncategorical income support and effective fulfillment of the absent parent's financial responsibility, thought must still be given to the question: Does society have a remaining obligation to the parents and children who must live for any extended period of time in a one-parent household? If divorce and remarriage are widespread and follow hard upon the heels of one another, this problem loses at least some of its urgency. But for one-parent households of lengthy duration, society may well want to answer, Yes. If so, we have identified two alternative routes that might be followed. The first (Plan I) focuses on the needs of the children and increases the size of the transfer as the child and his or her needs grow to increasingly adult proportions. The second (Plan II) focuses on the consequences, not of the presence of the child, but on the absence of the second parent. This plan, thus, scales support inversely to the age of the child--recognizing that older children are at home less and when at home require less parental time input. Its major advantage is, in line with emerging social preferences, that it does provide the nurturing parent with a less distorted choice between work in the market and at home.

Both, of course, will cost the taxpayer something. But in the context of effective fulfillment of private obligations, the cost will be less than our simulations imply. In the interest of equity among children, whatever the shape of the household to which they belong, it may be well worth paying.

NOTES

¹The other two groups were the aged and the blind--also traditional objects for public and private compassion.

²The first sign that this might be changing came in 1974 when the problem of child support by absent parents was again tackled in Social Security amendments establishing a parent locator service within HEW and permitting access for this purpose to sources of information previously protected as confidential (somewhat softened in 1975). The significant thing about this legislative development is that, for the first time, there was discussion of use of this locator service by non-AFDC recipients as well. Although this was not written into the bill unconditionally, it has been included for a limited time (Cassetty, 1978, pp. 13-14).

³Betson et al. (1979).

⁴A nuclear family is defined to be head, spouse (if any), and own children (if any). Note that this is a more restrictive definition than the standard Census Bureau definition of the family, but one which more closely approximates the filing units for current cash assistance programs and the tax system. We prefer to refer to such units as households, since families in fact clearly extend across household boundaries. Children are defined as under 18 years of age.

⁵Let X = four-person poverty line; Y = four-person poverty standard from the Food Stamp Program; Z = increment in the Food Stamp Program; I = our increment. Then

$$I = (Z)(X)/Y$$

⁶For a nuclear family living alone consisting of under 7 persons, our measure is very close to the official poverty line.

⁷This metaphor is from John E. Todd, Office of Income Security Policy, HEW.

⁸Some basic properties of logarithmic graphic representation should be mentioned here. (a) Distances on a ratio scale can be interpreted as percentage differences. (b) Slopes on a double-log diagram represent elasticities. (c) On the assumption that the utility of an extra adult-equivalent dollar is inversely proportional to the welfare ratio, equal differences imply equal increments of well-being.

⁹It is also possible that the negatively sloped segment is only apparently negative, given the sampling error.

¹⁰The average poverty line for a household of four in 1975, the year corresponding to the income and hours data on the SIE, was \$5496.

¹¹The actual numbers are prorated on the basis of the poverty level for a four-person household, assuming two adults and two children.

¹²Working was defined as having earnings equivalent to at least one quarter of full-time work at the minimum wage (\$1040 in 1975).

¹³These tax rates could be calibrated to produce exactly zero net cost in the model, but the trivial extra precision that would result does not justify the extra computation involved.

¹⁴It should be noted that there are slight differences in the income transformation functions for two-parent households under the three alternatives, due to a labor supply response to the increase in the tax rate necessary to finance the plans. The differences are of the order of

0.01WR and are disregarded in the following discussion. The curves shown are for two-parent households under the basic CIT.

¹⁵The curve shown for two-parent households is that for the basic NIT. The changes induced by the increased tax rates are of the order of magnitude .01WR.

¹⁶Modern methods of cell biology promise almost foolproof determination of paternity in contested (or uncertain) cases.

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