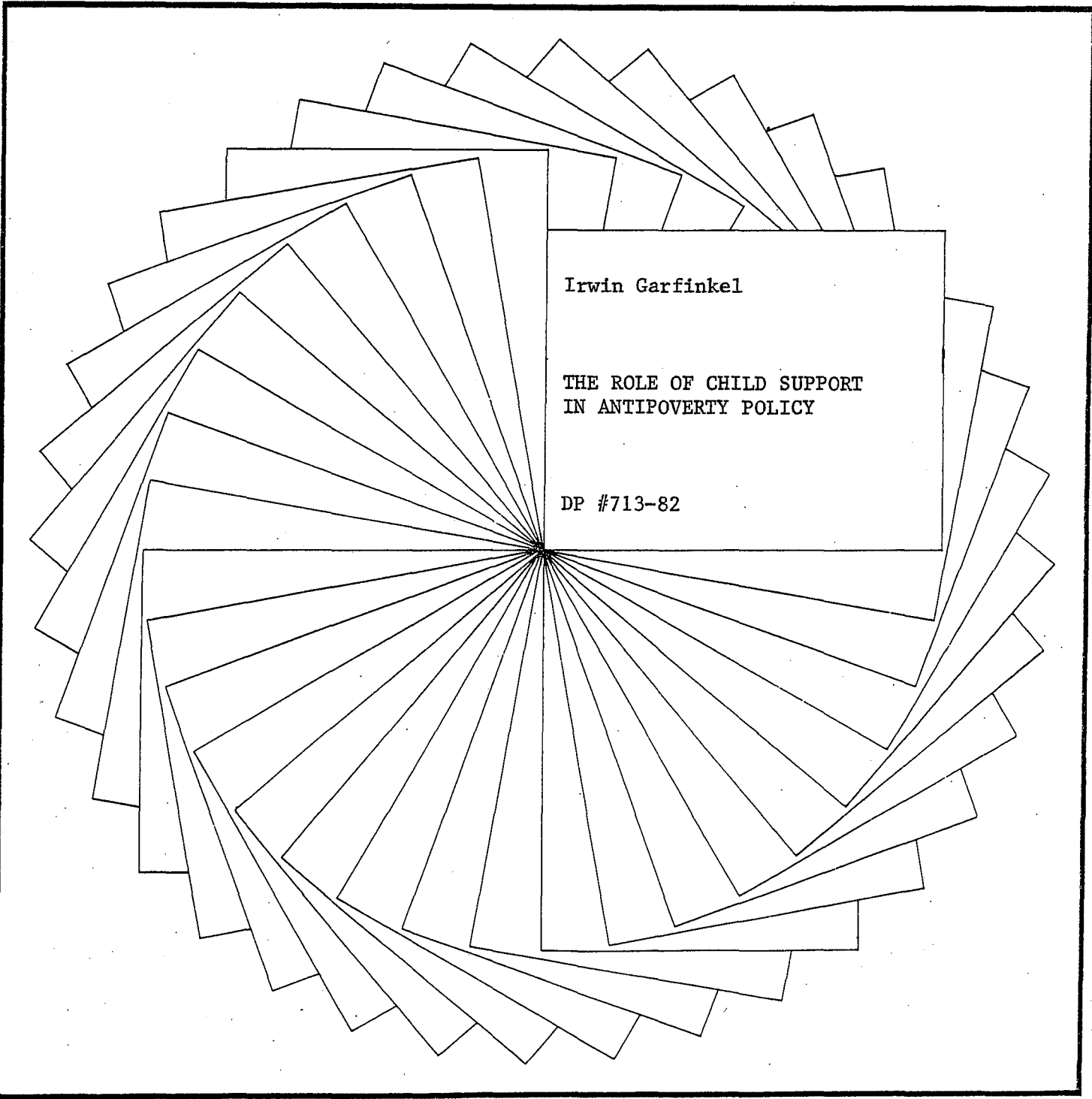




# Institute for Research on Poverty

## Discussion Papers



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THE ROLE OF CHILD SUPPORT  
IN ANTIPOVERTY POLICY

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## ABSTRACT

This paper first describes existing child support practice in the United States. Attention is paid to the establishment and enforcement of parental child support obligations as well as to publicly provided child support benefits. Recent federal initiatives are summarized. Effects of the current system on alleviating poverty are assessed.

The second section is concerned with what should be rather than what is. Arguments for excusing low-income absent parents from the obligation to support their children are addressed. The extent to which child support can both provide more generous benefits to single-parent families and minimize incentives for the formation of single-parent families is explored. The issue of whether children in single-parent families should be aided by a welfare program is also addressed. This section concludes with a brief summary of problems with the current child support system.

The last section describes a proposal for a new child support system and presents estimates of the costs of the system and its effects on poverty. The relationship of estimated benefits to costs is promising enough to warrant trying out the new system in selected jurisdictions.

## The Role of Child Support in Antipoverty Policy

### INTRODUCTION

The economic well-being of a large and growing percentage of children in the United States is partly dependent upon the nature of our child support institutions.

As of 1981 approximately one of five children in the United States were potentially eligible for child support in that they were residing apart from a living natural parent.<sup>1</sup> Nearly one of every two children born today will become eligible for child support before reaching age 18.<sup>2</sup> Presently the majority of children potentially eligible for child support live in families headed by women.<sup>3</sup> Approximately half of all children in female-headed families are poor. These children and their mothers constitute 30% of the poor.<sup>4</sup> Consequently the role of child support in antipoverty policy, the issue addressed in this paper, is important.

The paper is divided into three major sections. The first describes existing child support practice in the United States. Attention is paid to the establishment and enforcement of parental child support obligations as well as to publicly provided child support benefits. Recent federal initiatives are summarized. Effects of the current system on alleviating poverty are assessed.

The second section is concerned with what should be rather than what is. Arguments for excusing low-income absent parents from the obligation to support their children are addressed. The extent to which child support can both provide more generous benefits to single-parent families and minimize incentives for the formation of single-parent families is

explored. The issue of whether children in single-parent families should be aided by a welfare program is also addressed. This section concludes with a brief summary of problems with the current child support system.

The last section describes a proposal for a new child support system and presents estimates of the costs of the system and its effects on poverty. The relationship of estimated benefits to costs is promising enough to warrant trying out the new system in selected jurisdictions.

## I. EXISTING PRACTICES

The current child support system consists of two major parts: the judiciary system, which now establishes the responsibility to pay support, sets the amount of support to be paid, and enforces the obligation of parents to pay support; and the Aid to Families with Dependent Children program (AFDC), commonly called welfare. There are many other parts to this system. District attorneys and jails play very big roles in the lives of some absent parents. Food Stamps, Medicaid, and Public Housing play very big roles in the lives of most AFDC beneficiaries.

### A. The Judicial System

The first point to make about child support is that with the important exception of the recent federal enforcement legislation discussed later in this section, child support is strictly a state and local function. Family law is traditionally a province of the states.

In most states, the obligation of absent parents to pay child support is explicitly stated in statute, though in some the obligation is only implied.<sup>5</sup> Even where the statutes contain guidelines as to how much support should be paid, the guidelines are very general. For example, the

Wisconsin statute instructs Wisconsin courts to apply the following criteria in determining the amount of child support: (1) the financial resources of the child; (2) the financial resources of both parents; (3) the standard of living the child would have enjoyed had the marriage not ended in annulment, divorce, or legal separation; (4) the desirability that the custodian remain in the home as a full-time parent; (5) the cost of day care if the custodian works outside the home, or the value of custodial services performed by the custodian if the custodian remains in the home; (6) the physical and emotional health needs of the child; (7) the child's educational needs; (8) the tax consequences to each party; (9) such other factors as the court may in each individual case determine to be relevant. In short, the system is characterized by judicial discretion.

In some jurisdictions, the judges use a child support obligation schedule, which is similar to a tax table. For example, nearly every county in Michigan uses a schedule in which the absent parent's obligation depends only upon his income and the number of children he is required to support.<sup>6</sup> But such child support schedules are the exception rather than the rule.

In general, in order to collect overdue child support, the custodial parent not on welfare must take the initiative, usually by bringing a civil contempt charge against the nonpaying parent. The custodial parent can get a judgment for a sum of money, which puts her in the position of being a creditor, with various avenues open to her that are open to all creditors, such as garnishment of wages and seizure of property.

In Michigan, unlike the rest of the country, when child support obligations are not met, a government agency initiates legal action. Since 1917 child support in Michigan has been paid to an institution called the

Friend of the Court. Several other states have recently enacted legislation which requires that child support payments be made to government agencies. But the Friend of the Court still appears to be unique in routinely initiating enforcement actions.

The ultimate sanction for those who do not pay is jail. In Michigan thousands of absent fathers are jailed each year for failure to comply with child support orders.<sup>7</sup> While jailing appears to be used throughout the rest of the country, there are no data on its prevalence. According to Chambers, jailing works.<sup>8</sup> That is, when combined with an effective monitoring system, it deters nonpayment. His conclusion is based on the strong association between payment performance and utilization of jails across counties in Michigan. A final point to note is that only a small minority of absent fathers who fail to pay child support are jailed.

The most effective child support enforcement tool is a wage assignment.<sup>9</sup> A wage assignment is a legal order to the employer of the child support obligor to withhold a specified amount from the employee's wages. Wage assignments are being used more frequently. Wisconsin law now requires that a contingent wage assignment be issued in all cases. The county Clerk of Courts to whom all child support payments are made has the legal authority to effectuate the wage assignment once child support payments are 20 days delinquent. In practice, however, the Clerk of Courts doesn't pursue delinquencies for welfare cases for three to four months. Moreover, this agency takes no initiative in nonwelfare cases.

The overall performance of the child support system is, to say the least, not very impressive. Of those women with children potentially eligible for child support in 1979, only 59% were awarded payments.<sup>10</sup> For divorced and remarried women, nearly 80% had awards, while among separated and never married women, the figures were 45% and 11% respec-

tively. Of those awarded support, only 49% received the full amount due them and 28% received nothing. Combining the 40% who were entitled to nothing with the 28% who though entitled still received nothing results in more than half of those potentially eligible for child support getting nothing. Only 11% of the absent fathers of AFDC children pay any child support.<sup>11</sup>

#### B. The AFDC System

The Aid to Families with Dependent Children was created by the landmark 1935 Social Security Act. Eligible dependent children included those who lost the earnings of a parent because of death, disability, or absence. In 1961, states were also permitted to provide aid to dependent children whose fathers were unemployed. Originally the program paid benefits only to children, but in 1950 the program was amended to include benefits for the custodial parent. When the program was enacted, most of the children who benefited were orphans. Now the overwhelming majority of the children's mothers are divorced, separated, or never married. Widows constitute less than 2% of the AFDC caseload.

AFDC is an income-tested or welfare program. That is, benefits are confined to those with low income. As a consequence benefit reduction rates (tax rates) are high. Prior to 1967, most states reduced benefits by \$1 for each dollar earned. In 1967, in order to promote work, Congress required states to ignore the first \$30 per month plus one-third of each additional dollar earned when calculating benefits. In 1982 at President Reagan's request, the Congress limited this work incentive to four months. After that benefits are to be reduced again by \$1 for each \$1 of earnings.



Although the AFDC program has been at the heart of the welfare reform controversy, AFDC expenditures, \$12.7 billion in fiscal year 1981, account for only 17% of total welfare expenditures and only 4% of total expenditures on income support.<sup>12</sup>

On the other hand, AFDC is the most important public program for children with living absent parents. In 1981, it paid benefits to 11 million custodial parents and children, most of whom were potentially eligible for child support. In addition to cash benefits, most AFDC families also receive Food Stamps and Medicaid. If benefits from these and other welfare programs are included, it is probably the case that about half of all welfare expenditures are devoted to families potentially eligible for child support.

#### C. AFDC and Federal Child Support Enforcement

As noted above, in 1935, most single mothers were widows. As the nature of the caseload shifted in response to the demographic trends of more divorce, separation, desertion, and out-of-wedlock births, congressional interest in child support payments of the absent father grew. In 1950 Congress enacted the first federal child support legislation. This required state welfare agencies to notify law enforcement officials when a child receiving AFDC benefits had been deserted or abandoned. Further legislation, enacted in 1965 and 1967, allowed states to request addresses of absent parents from HEW and IRS and required states to establish a single organizational unit to enforce child support and establish paternity.

The most significant legislation was enacted in 1975 when Congress added Part D to Title IV of the Social Security Act, thereby establishing the Child Support Enforcement program sometimes referred to as the IV-D

program. Responsibility for running the program rests with the states. They are reimbursed by the federal government for 75% of their costs for running the program. In 1980 the law was amended to provide 90% federal funding for computerizing the program. The IV-D program is supposed to serve nonwelfare as well as welfare cases. As of 1981 about 17% of the IV-D caseload was attributable to non-AFDC cases.

Use of the Internal Revenue Service to collect child support owed to AFDC beneficiaries was authorized by the 1975 law. In 1980 use of the IRS extended to non-AFDC families. In 1981, legislation required the IRS to withhold tax refunds in cases where states certified that the individual owed child support that was past due.

By fiscal year 1981 IV-D collections amounted to \$1.6 billion, nearly a threefold increase since 1976.<sup>13</sup> Despite the fact that the IV-D program had an average non-AFDC caseload of 1.2 million compared to an average monthly AFDC caseload of 5.1 million, collections for the non-AFDC caseload totaled \$.96 billion compared to \$.67 billion for the AFDC caseload.

#### D. The Current Effect of Child Support on Poverty

Although children living in female-headed households are but a subset of all children potentially eligible for child support, our discussion focuses on them because even in the absence of child support, children living in male-headed households are unlikely to be poor.<sup>14</sup> In 1978, 51% of female-headed families would have been poor in the absence of private and public child support transfers.<sup>15</sup> The gap between their income and the income required to lift them out of poverty was \$9.1 billion. Child support from absent parents reduced the percentage poor to 47 and reduced the poverty gap to \$8.0 billion. AFDC and other cash transfers reduced the percentage poor to 42 and the poverty gap to \$3.8 billion.

How much in-kind transfers further reduce poverty is a more complicated and controversial issue. There is disagreement about which in-kind transfers to count, particularly about whether to count medical care subsidies and about how to value the in-kind transfers. Smeeding's estimates indicate that the effects of in-kind transfers on poverty are very sensitive to how these issues are resolved. His estimates suggest that in-kind transfers further reduce poverty among female heads of families from 16 to 49%, depending upon which in-kind transfers are counted and how they are valued.<sup>16</sup>

These data give rise to two questions. First, is the current division between private and public child support transfers appropriate with respect to poverty reduction? Second, in what ways can the child support system be altered to increase its effectiveness in reducing poverty?

## II. EVALUATING SELECTED ASPECTS OF THE CURRENT SYSTEM

### A. Should Low-Income Absent Parents be Required to Pay Child Support?

A fundamental principle that is consistent with current law and common belief and underlies both our evaluation of the current child support system and our efforts to reform the system is that when an individual parents a child, that individual incurs an obligation to share his/her income with the child. Yet most absent parents and the overwhelming majority of those with low-income pay no child support. Are there good reasons for exempting low-income absent parents from the obligation to pay child support? Two arguments have been advanced for doing so.

First, there is the argument that low-income absent fathers cannot afford to pay child support. Many are unemployed. Most remarry. Enforcing support will only impoverish and pauperize the new family as

well as the old. There are two parts to this argument, one positive and one normative. The positive question is, How much income do absent fathers have? The normative question is, What share of this income should be devoted to child support?

The factual question is hard to answer because income data on absent fathers is unavailable in surveys precisely because the father is absent. By assuming first that absent parents have the same race, age, and years of schooling as custodial parents and second that absent parents earn the same amount of income as the average divorced, separated, and remarried man with the same race, age, and years of schooling, we developed crude estimates of absent-parent income. These estimates suggest that the average income in 1980 of an absent father with a child receiving AFDC in Wisconsin was nearly \$13,000.<sup>17</sup> Clearly, absent-parent income is nonnegligible.

This still leaves us with the normative question of how much of the absent father's income should be transferred to his children. Should some of his income be set aside for his own living expenses? Should additional funds be set aside for a new wife and children? If so, how much? Those who argue that most absent fathers of welfare children cannot afford to pay child support believe that the absent father should not be required to pay any support until his income is high enough to provide a relatively decent standard for himself and a new family. According to the standards developed by the Community Council of New York, absent fathers need income close to the median level of income to be able to afford to pay child support.<sup>18</sup> Between this position and the position that to parent a child is to incur an obligation to share one's income with the child, there appears to be an unbridgeable gap.

If absent fathers of AFDC children paid 15% of their income to support one child, 25% to support two children, and 30% to support three or more children, in the United States as a whole their total contribution to child support would be \$8.9 billion. This figure would probably be less than \$2 billion if the absent fathers paid in accordance with the Community Council guidelines.<sup>19</sup> Both figures should be contrasted with the \$.7 billion currently collected.

The second argument for exempting low-income absent fathers from paying child support is that the costs of collecting the payment are too high. For the United States as a whole, the ratio of AFDC child support collections to collection costs is only \$1.30 to \$1.00. Moreover in 22 states, costs exceed collection.<sup>20</sup> The record of the existing system is hardly promising. If one believes strongly enough in enforcing parental responsibility, one can always make a case that even if costs exceed collections, the extra costs are justified. Few, however, are so fervently committed. Indeed, most of us would expect to do a good bit better than spending a dollar to raise \$1.30. Consequently, unless the system can be made far more efficient than is currently the case, there may be some justification for excusing low-income absent fathers from the obligation to pay child support.

Two historical experiences suggest that automatic universal wage withholding of child support obligations might make the collection of child support from low-income absent fathers sufficiently efficient to justify the effort. First, until the enactment of the social security payroll withholding tax, income tax experts believed that it was impossible to collect from low-income families. Second, current experience with wage withholding in child support is very promising.

B. Child Support as a Resolution to the Dilemma of Categories

In the previous section, some arguments for excusing low-income absent parents from the obligation to pay child support were considered. In this section, an argument is advanced that enforcing the child support obligation helps resolve a dilemma of categorization in income support systems. Categorization consists of treating different groups differently (e.g., treating one-parent families differently from two-parent families). The general case for categories is that their use improves the trade-off between adequacy and cost.<sup>21</sup> If some groups are more likely than other groups to be poor the costs of forgoing categorization are high. Either the benefits provided to all are high enough for the group with the greatest needs, in which case, the system will be quite expensive, or the benefits, while sufficient for those with the least needs, are insufficient for those with the greatest needs. The general problem with categories is that they create incentives for people to change their behavior in order to fit into the more favored category.

The specific rationale for providing more aid to single-parent than to two-parent families is that the gap between needs and ability to meet those needs is greater in single-parent families. In such families there is only one adult capable of generating income, caring for the children, and doing housework. Furthermore in the overwhelming majority of cases the single parent is a woman and therefore can earn much less than a man with comparable years of schooling. In a study undertaken by Robert Haveman and myself, we found that female-headed families were just as likely to be poor if families were ranked by their earnings capacity (ability to generate income if the adults worked full-time all year) rather than by actual income.<sup>22</sup>

The problem with providing more aid to single-parent families is that doing so creates incentives for the formation and preservation of single-parent families. Although several research studies have found a positive correlation between the level of AFDC benefits and the evidence of female headship in the United States, other studies find no effect. Taken together these studies suggest the effect is probably weak.<sup>23</sup> The strongest effect of AFDC benefits appears to be discouragement or delay of remarriage.

Of course, it is possible that society is better off--or at least not worse off--as a result of whatever additional single-parent families are created by more favorable treatment of those groups. Not all marriages are made in heaven. Some men beat their wives and children. In some of these cases, all the parties may be better off separate rather than together. Although the most reliable research indicates that boys who grow up in single-parent families do less well than boys who grow up in two-parent families, this research may not be a good guide to policy.<sup>24</sup> For these families are likely to differ in other ways besides being single- or two-parent families.<sup>25</sup>

Despite the fact that increases in single parenthood may not be socially pernicious, prudence would suggest that in the face of ignorance we should seek to minimize incentives for single parenthood. Indeed most public finance experts believe that tax and transfer policy should be designed to be neutral with respect to behavioral choices.

Therefore, income transfer policy is confronted with the following dilemma. How can single-parent families be aided more generously without creating incentives for the formation of such families? Child support can help resolve the dilemma. If the more generous aid to single-parent families is paid for or financed by the absent parent, the total incen-

tive for breaking up a family is reduced. For placing the cost on the absent parent deters him from splitting, though it does not directly increase the cost of separation to the custodial parent. Still, for two reasons, the greater the proportion of the increment to single-parent families which is financed by absent parents, the smaller will be the incidence of single parenthood. First, in cases where it is the potential absent parent who wants to split, there is a direct deterrent. Second, even in cases where the custodial parent wants to split, the extra cost to the absent parent may induce him to behave in ways that would persuade the custodial parent to keep the marriage intact.

I do not want to imply that it would be optimal to have the low-income absent father pay 100% of the cost of supplements to female-headed families. This would follow if minimizing incentives for single-parent family formation were the only objective of public policy. But assuring a decent standard of living to such families is also an objective.

C. Should Children in Single-Parent Families be Aided by a Welfare Program?

Strong arguments exist for supplementing the incomes of those who are expected to work through nonwelfare programs. Since female heads of families are increasingly expected to and indeed do work, welfare programs are not the best way to aid them.

The incomes of those expected to work can be supplemented either by programs designed only to aid those with low income (income-tested or welfare programs) or by programs designed to aid all regardless of income (non-income-tested programs). Aid to Families with Dependent Children and Food Stamps are examples of income-tested programs; children's allowances and public education are examples of non-income-tested



programs. First, we must dispose of the frequently heard argument that welfare programs are more efficient than nonwelfare programs.<sup>26</sup> Welfare programs reduce benefits as income increases, which is equivalent to taxing income. Compared to the tax rates they face in welfare programs, the tax rates which the poor must pay to finance programs that provide the same benefits to all, will be lower. On the other hand, in order to finance a non-income-tested program that provides the same benefits as an income-tested program, tax rates on the nonpoor must be higher. So whether income testing is efficient or not depends upon whether it is more efficient to place higher tax rates on the rich or the poor. The limited empirical evidence available does not support the claim that income testing is more efficient, and, indeed, leans the other way.<sup>27</sup>

Equity considerations strengthen the case for aiding those expected to work through non-income-tested programs. By their nature welfare programs impose tax rates on beneficiaries that are higher than the tax rates imposed on nonbeneficiaries to finance the program. This is equivalent to imposing a regressive marginal tax rate structure in our overall tax-transfer system. We fail to recognize this because the regressivity is imposed not by institutions that tax us all, but by special institutions that are designed to, and do indeed provide help to the poor.

Because the tax rates in our tax-transfer system are regressive, they penalize poor people for working to a greater degree than the tax system penalizes the rest of us. The economic component of this is that we reduce the relative incentive of the poor to work. The moral component is that we stack the deck against their "making it" the way Americans are supposed to make it, through work. The poor have the worst jobs and

get paid the least. If we really want them to work they should face the lowest not the highest tax rates.

Granted that welfare programs are not the best way to supplement the incomes of those expected to work, should female heads of families be classified as expected to work? When the Aid to Families with Dependent Children (AFDC) program was enacted in 1935, women were not expected to work. Moreover, we were in the midst of the Great Depression. The program was designed to enable single mothers to stay home to raise their children. Now that half of married women with children work, expectations have changed. A new consensus is emerging. Increasingly single mothers are expected to work. Indeed, in view of the fact that three-fourths of single mothers do work, the value judgment required to decide whether they should be expected to work may be beside the point.

D. Summary Critique of the Current System

Throughout the country, the current child support system condones and therefore fosters parental irresponsibility. It is inequitable and therefore exacerbates tensions between former spouses. And everywhere the system impoverishes children.

Evidence of parental irresponsibility is contained in the already presented national statistics. To summarize, less than half of absent fathers pay any child support.

The child support system is inequitable because whether the absent parent is ordered to pay support, how much he is ordered to pay, and how much effort is devoted to forcing him to pay depends not just on ability to pay, but on the varying attitudes of local judges, district attorneys, and welfare officials, and the skills of the parents' lawyers. Nearly every absent parent can find someone earning more who pays less. Nearly

every custodial parent knows someone who is receiving more from an absent father who earns less. Because of this and the absence of firm determinative legislative guidelines, child support is a major source of continuing tension between many former spouses.

Finally, the widespread failure of the system to ensure that absent parents pay child support impoverishes children and shifts the burden of financial support to the public sector. Nearly half of all children living in female-headed households are poor and on welfare. Yet, as suggested above, in view of the fact that so many single mothers work, welfare is no longer the best way to aid children with single mothers.

### III. A NEW CHILD SUPPORT SYSTEM

In view of these problems with the current child support system a research team from the Institute for Research on Poverty, under contract with the Wisconsin Department of Health and Social Services, has developed a proposal for a new child support benefit and tax system.<sup>28</sup>

Under the program all parents who live apart from their children are liable for a child support tax. The child support tax base will be gross income. The tax rate will be proportional and depend upon the number of children owed support. For example, the tax rate might be 15% for one child, 25% for two children, and 30% for three or more children. The child support tax would be collected through a wage withholding system, like payroll and income taxes. All children with a living absent parent will be entitled to a child support benefit equal to the child support tax paid by the absent parent or a minimum benefit. In cases where the absent parent pays less than the minimum, the difference would be financed out of general revenues now devoted to the Aid to Families with

Dependent Children program. Finally, in cases where the absent parent pays less than the minimum, the custodial parent would be subject to a surtax up to the amount of the public subsidy. The surtax rate would be one-half the tax rate of the absent parent.

A few words about the rationale for three major features of this new system are warranted. First, why establish child support obligations by legislation rather than judicial discretion? The principal argument is that because of the large financial obligation already borne by the state, the apportionment of support for poor children among the custodial parent, the absent parent, and the public is more appropriately a legislative function. Moreover, a legislated formula would reduce inequity. Finally, the use of courts is too costly to society and the families affected.

Second, why use general revenues to supplement inadequate child support payments from absent parents? The answer is that doing so will reduce welfare costs and caseloads.

Third, why treat child support as a tax and use the withholding system in all cases? Because wage withholding is the most effective collection tool we have, and effective and efficient collection of child support is essential. However, it is possible that improving the response to delinquent payments in the current collection system through the use of a fully automated and computerized system may achieve significant efficiency gains without universal withholding. Consequently, we have recommended that both collection approaches be tried on an experimental basis in several Wisconsin counties.

The new child support benefit tax program would achieve the objectives of (1) assuring that those who parent children share their income with them; (2) establishing and collecting child support equitably and

efficiently; (3) increasing the economic well-being of children with a living absent parent while (4) simultaneously reducing welfare costs and caseloads. Our cost estimates indicate that these objectives can be achieved without increasing costs to general taxpayers or overtaxing absent parents or harming AFDC beneficiaries. Indeed, the estimates indicate that it may even be possible to achieve savings.

#### A. Savings of a New System

In this section cost estimates are presented for several variants of the program we have described. The estimates are based upon the 1975 Survey of Income and Education (SIE) data base for the state of Wisconsin. Income figures have been inflated to 1980 dollars by the cost-of-living index.

The most difficult part of the exercise is to estimate the income of the absent parent. Income data on absent parents are not available in the SIE. Based upon relationships in the married population, we assumed that the race of the absent and custodial parents were the same, and calculated the probabilities for years of schooling and age being the same, or higher or lower. We then estimated income distributions for 36 groups, each having the same sex, race, age, and years of schooling. The probabilities were then put together with the income distributions to give us estimates of absent-parent income. Weaknesses of the methodology are discussed below.

The cost estimates are derived for both the portion of the program which involves the minimum or flat benefit, and for benefits above the minimum, which will be paid exclusively by the absent parent. Administrative costs are ignored.

In Table 1, estimates for a number of plans with different minimum benefit levels are presented. Minimum benefits, given in the first two rows of the first column of each plan, range from \$4000 to \$2000 for the first child and from \$1500 to \$1000 for the second and subsequent children. The tax rates are 20% for the first and 10% for each subsequent child with a maximum of 40% no matter how many children. Tax rates on custodial parents, not shown in the table, are one-half those on absent parents. Gross benefits paid out are given in column 1, absent-parent and custodial-parent tax revenues in columns 2 and 3, AFDC savings in column 4, and net savings in column 5. Net savings equal the sum of absent- and custodial-parent tax revenues and AFDC savings minus gross benefits. Finally, all of the plans in Tables 1 and 2 assume that 100% of potential absent-parent tax revenue is collected.

Savings range from a low of \$63 million to a high of \$124 million. These figures represent a nontrivial amount. In relation to current federal plus state expenditures on AFDC child support eligibles in Wisconsin in 1980, they equal approximately 20% to 40%.

Not surprisingly net savings decrease as the level of the minimum benefit increases. An increase in the minimum benefit increases total benefits paid out. Absent-parent tax revenues remain constant. (The small increases in the table are a result of rounding.) Increases in the minimum benefit, however, do lead to offsetting increases in the custodial-parent tax and AFDC savings. Thus, whereas increasing the minimum benefit from \$2000 for the first and \$1000 for subsequent children to \$4000 and \$1500 respectively increases total benefits paid by \$167 million, net savings decrease by only \$61 million.

Table 1

Fiscal 1980 Savings from Wisconsin Child Support Program as a  
Function of Alternative Minimum Benefit Levels (\$ millions)

Description of Plan			(1) Benefits	(2) Tax on Absent Parent <sup>a</sup>	(3) Tax on Custodial Parent	(4) AFDC Savings	(5) Net Savings (2)+(3)+(4)-(1)	% Who Pay at Least the Minimum	
								(6) Absent Parent	(7) Absent Parent plus Custodial Parent
1st Child	\$4000	20	628	425	91	174	63	36	52
2nd Child	1500	10							
Maximum		40							
1st Child	4000	20	591	419	84	174	86	39	55
2nd Child	1000	10							
Maximum		40							
1st Child	3500	20	590	419	83	169	81	40	57
2nd Child	1500	10							
Maximum		40							
1st Child	3000	20	554	413	74	164	97	45	62
2nd Child	1500	10							
Maximum		40							
1st Child	3000	20	520	406	66	162	114	48	66
2nd Child	1000	10							
Maximum		40							
1st Child	2500	20	489	399	56	154	121	54	72
2nd Child	1000	10							
Maximum		40							
1st Child	2000	20	461	393	46	146	124	60	77
2nd Child	1000	10							
Maximum		40							

<sup>a</sup>Differences in tax revenue from absent-parent tax across plans result from a program error, which had little effect on the rest of the figures.

One other aspect of Table 1 is worth noting. The custodial-parent tax is a significant source of revenue. The more generous the plan, the more significant the role of the custodial-parent tax. In the most generous plan, for example, the custodial-parent tax is equal to more than 25% of the absent-parent tax, while in the least generous plan, the percentage is only half that.

Table 2 is identical to Table 1 except that the tax rates rather than benefit levels are varied. The benefits in all plans are equal to \$3000 for the first and \$1500 for each subsequent child. As expected, savings increase with tax rates. Indeed, when tax rates are low enough, savings turn into costs.

The tax rate on the first child is a more important determinant of net savings than either the tax rate on the second child or the maximum tax rate. For example, plans 4 and 7 are identical except that the maximum tax rate in the former is 40%, while in the latter it is 30%. The difference in savings is only \$4 million. In contrast, plans 1 and 5 are identical except the tax rate on the first child is 25% in the first and only 15% in the second. Savings fall from \$113 million to \$72 million.

The programs simulated in Tables 1 and 2 would all reduce the incidence of poverty as well as the poverty gap among families eligible for child support. Not surprisingly the reduction in the poverty gap is more significant than the reduction in the incidence of poverty. The reduction in poverty incidence ranges from about 25 to 40%; while the reduction in the poverty gap ranges from about 40 to 70%. Both the level of the minimum payment and variations in the tax rate on the absent parent affect the reduction in poverty. Finally, because Wisconsin already has one of the highest AFDC benefit levels in the country, the effects on poverty if these programs were enacted nationwide



Table 2

Fiscal 1980 Savings from Wisconsin Child Support Program as  
a Function of Alternative Tax Rates (\$ millions)

Description of Plan			(1)	(2)	(3)	(4)	(5)	% Who Pay at Least the Minimum	
								(6)	(7)
Benefit	Tax Rate %		Benefits	Tax on Absent Parent	Tax on Custodial Parent	AFDC Savings	Net Savings (2)+(3)+(4)-(1)	Absent Parent	Absent Parent plus Custodial Parent
1st Child	\$3000	25	586	455	73	171	113	50	67
2nd Child	1500	10							
Maximum		40							
1st Child	3000	25	565	426	73	170	105	47	64
2nd Child	1500	05							
Maximum		40							
1st Child	3000	20	554	413	74	164	97	45	62
2nd Child	1500	10							
Maximum		40							
1st Child	3000	20	524	365	74	163	77	40	56
2nd Child	1500	05							
Maximum		40							
1st Child	3000	15	519	358	74	158	72	37	53
2nd Child	1500	10							
Maximum		40							
1st Child	3000	15	491	304	73	154	40	31	45
2nd Child	1500	05							
Maximum		40							
1st Child	3000	20	521	358	73	163	73	39	56
2nd Child	1500	05							
Maximum		30							

Table 2, continued

Description of Plan			(1) Benefits	(2) Tax on Absent Parent	(3) Tax on Custodial Parent	(4) AFDC Savings	(5) Net Savings (2)+(3)+(4)-(1)	% Who Pay at Least the Minimum	
								(6) Absent Parent	(7) Absent Parent plus Custodial Parent
Benefit	Tax Rate %								
1st Child	\$3000	15	506	333	73	158	59	35	50
2nd Child	1500	10							
Maximum		30							
1st Child	3000	15	491	304	73	154	40	31	45
2nd Child	1500	05							
Maximum		30							
1st Child	3000	10	486	290	72	152	27	26	39
2nd Child	1500	10							
Maximum		30							
1st Child	3000	10	469	243	68	148	-10	20	30
2nd Child	1500	05							
Maximum		30							

would be even greater. For example our estimates indicate that nationwide a program with a minimum benefit of \$3500 for the first child and \$1500 for each subsequent child and with tax rates of 20% for one child, 30% for two, and 40% for three or more children would wipe out over 80% of the poverty gap.

For at least two reasons, the estimates of revenues from absent parents and therefore of net savings in Tables 1 and 2 are too high. First, some absent parents are in jail or another public institution and therefore will be unable to pay child support. Second, no matter how efficient the collection system, less than 100% of potential revenue will be collected. In both cases, the problem will be most serious for absent parents with low earnings. In Table 3, therefore, we present additional estimates for a few plans where we assume that 20% and 40% respectively of the poorest absent parents do not pay anything at all.

What stands out in Table 3 is that the estimates of net savings are very sensitive to assumptions the effectiveness of collection. Estimates range from a savings of \$97 million to additional expenditures of \$58 million.

The current system collects about 65% of the liability of absent fathers. We think that is a lower-bound estimate of the effectiveness of the new system. Of course it is probable that the current system in practice excludes those who would be hardest to collect from. Still, we believe that effectiveness can be substantially improved. Our best guess is that we can collect from 80% of the absent parents. The fact that this is a guess, however, highlights the need to get more information on the effectiveness of alternative collection mechanisms.

Table 3

Fiscal 1980 Savings from Wisconsin Child Support Program as a Function of Percentage of Potential Absent-Parent Tax Revenue Collected (\$ millions)

Description of Plan			(1) Benefits	(2) Tax on Absent Parent	(3) Tax on Custodial Parent	(4) AFDC Savings	(5) Net Savings (2)+(3)+(4)-(1)	% Who Pay at Least the Minimum	
								(6) Absent Parent	(7) Absent Parent plus Custodial Parent
Collect 100% Tax on Absent Parents									
1st Child	\$3500	20	590	419	83	169	81	40	57
2nd Child	1500	10							
Maximum		40							
1st Child	3500	15	547	340	81	165	39	30	44
2nd Child	1500	10							
Maximum		30							
1st Child	3000	20	554	413	74	164	97	45	62
2nd Child	1500	10							
Maximum		40							
1st Child	3000	15	506	333	73	158	59	35	50
2nd Child	1500	10							
Maximum		30							
Collect Nothing from Poorest 20% of Parents									
1st Child	3500	20	578	348	92	166	27	34	49
2nd Child	1500	10							
Maximum		40							
1st Child	3500	15	543	285	86	164	-8	26	39
2nd Child	1500	10							
Maximum		30							

Table 3, continued

Description of Plan			(1) Benefits	(2) Tax on Absent Parent	(3) Tax on Custodial Parent	(4) AFDC Savings	(5) Net Savings (2)+(3)+(4)-(1)	% Who Pay at Least the Minimum	
								(6) Absent Parent	(7) Absent Parent plus Custodial Parent
Collect Nothing from Poorest 20% of Absent Parents									
1st Child	\$3000	20	540	344	84	159	47	38	53
2nd Child	1500	10							
Maximum		40							
1st Child	3000	15	500	279	79	155	30	30	43
2nd Child	1500	10							
Maximum		30							
Collect Nothing from Poorest 40% of Absent Parents									
1st Child	3500	20	566	274	101	163	-28	27	39
2nd Child	1500	10							
Maximum		40							
1st Child	3500	15	538	226	92	162	-58	21	32
2nd Child	1500	10							
Maximum		30							
1st Child	3000	20	525	271	94	153	-7	30	42
2nd Child	1500	10							
Maximum		40							
1st Child	3000	15	493	221	85	151	-35	24	35
2nd Child	1500	10							
Maximum		30							

There are many other shortcomings in our cost-estimating methodology. For three reasons, AFDC savings are underestimated. First, there were fewer AFDC beneficiaries in 1975 than there were in 1980, and receipt of AFDC is underreported in the survey. Second, some AFDC beneficiaries will, as a result of the lower tax rate, work more. Third, some potential AFDC beneficiaries will fail to claim the AFDC supplement to which they are entitled once they are receiving the child support benefit. On the other hand, AFDC savings are overestimated because the reduced benefits of existing beneficiaries who now work are not taken into account. Moreover both the benefits paid out and the taxes collected are overestimated because in practice if there were no father identified, the child would not be eligible. We could not distinguish cases where the father was identified from cases where the father was not identified in our data. This should lead to an overestimate of the net cost or an underestimate of the net savings, because cases where the absent father is not identified are most likely to be cases where there is a public subsidy. Finally, the demographic data are for 1975. As a result of increases in divorce, separation, and out-of-wedlock births, the number of eligible children has increased. This should increase both gross benefits and tax revenues. The net effect is unknown. We plan to use a new data base, the Wisconsin Basic Needs Study, to address this issue.

Despite these and other weaknesses, we believe the estimates give us reliable orders of magnitude. They suggest that the proposed reform has great promise. And, they point to the need to get better information on the effectiveness of alternative collection mechanisms.

## NOTES

<sup>1</sup>For an explanation of how this estimate was derived, see Footnote #1 in Irwin Garfinkel and Marygold Melli, Child Support: Weaknesses of the Old and Features of a Proposed New System, Volume I, Institute for Research on Poverty, February 1982.

<sup>2</sup>See the statistical appendix in Daniel Patrick Moynihan, "Welfare Reform's 1971-72 Defeat: A Historic Loss," Journal of the Institute for Socioeconomic Studies, 6 (Spring 1981), 1-20. His estimate applies to children living in single-parent families. Since some of these result from widowhood, the percentage eligible for child support will be smaller.

<sup>3</sup>In Wisconsin, 16% of children eligible for support live with their fathers, 24% live with their mother and stepfather, and 60% live in female-headed families.

<sup>4</sup>See Characteristics of the Population Below the Poverty Level: 1980, Current Population Reports, Consumer Income Series P-60, No. 133 (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census, 1982), Table 11.

<sup>5</sup>Harry O. Krause, Child Support in America: The Legal Prospective, (Charlottesville, Virginia: The Michie Company, 1981).

<sup>6</sup>David L. Chambers, Making Fathers Pay: The Enforcement of Child Support, (Chicago: University of Chicago Press, 1979).

<sup>7</sup>Chambers, p. 248.

<sup>8</sup>Chambers, pp. 90-104.

<sup>9</sup>See both Krause and Chambers.

<sup>10</sup>Child Support and Alimony: 1978, Current Population Reports, Special Studies Series, P-23, No. 112 (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census, September 1981).

<sup>11</sup>Child Support Enforcement, 6th Annual Report to Congress for period ending December 31, 1981 (Washington, D.C.: U.S. Department of Health and Human Services, Office of Child Support Enforcement, December 31, 1981), pp. 68 and 70.

<sup>12</sup>Irwin Garfinkel, ed., Income-Tested Transfer Programs: The Case For and Against (New York: Academic Press, 1982) p. 12.

<sup>13</sup>Child Support Enforcement, pp. 55, 57, and 68-69.

<sup>14</sup>The biggest omitted group live with their remarried mothers. Only 5% of those mothers live in households with incomes below the poverty line. See Child Support and Alimony: 1978, Table 1.

<sup>15</sup>These and other figures in the same paragraph in the text are taken from cross tabulations produced by the author from the 1979 CPS March-April match tape. A special child support supplement was conducted in the April CPS and matched to the March CPS. See Child Support and Alimony: 1978 for a description of the data.

<sup>16</sup>See Timothy Smeeding, Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effects on Poverty, Technical Paper #50 (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census, March 1982), p. 89.

<sup>17</sup>See Garfinkel and Melli, Volume III, pp. 45-77 and 142-155.

<sup>18</sup>See Guide for Determining the Ability of an Absent Parent to Pay Child Support (New York: Community Council of Greater New York, 1981).



<sup>19</sup>We are in the process of estimating this figure. As of now, the figure in the text is an educated guess.

<sup>20</sup>Child Support Enforcement, p. 83.

<sup>21</sup>See G. A. Akerlof, "The Economics of Tagging," The American Economic Review, 68 (March 1978), 8-19; and Alton Linford, "Public Assistance Categories: Yes or No?" Social Service Review, 22 (June 1948), 199-210.

<sup>22</sup>See Irwin Garfinkel and Robert Haveman, Earnings Capacity, Poverty and Inequality (New York: Academic Press, 1977), Chapter 4.

<sup>23</sup>See John Bishop, "Jobs, Cash Transfers and Marital Instability: A Review and Synthesis of the Evidence," Journal of Human Resources, 15 (Summer 1980), pp. 301-334; and Robert Hutchens, "Welfare, Remarriage and Marital Search," The American Economic Review, 69 (June 1979), 369-379.

<sup>24</sup>Most studies of the effects of marital splits on children are based on small nonrandom clinical samples. Data from Featherman and Hauser are an exception. These studies are reviewed in Katherine Bradbury and Irwin Garfinkel, "The Effects of Welfare Reform Alternatives on the Family," Special Report 13, Institute for Research on Poverty, University of Wisconsin, Madison, 1977.

<sup>25</sup>For example, it is possible that bad family life leads both to divorce and to long-term harm to the children. In this case the children of single parents would be expected to do less well than children in two-parent families even if being in a single-parent family had no effect.

<sup>26</sup>See for example, C. L. Schultze et al., Setting National Priorities: The 1973 Budget (Washington, D.C.: Brookings Institution, 1972), p. 200.

<sup>27</sup>Two of the three studies that address the issue specifically conclude that non-income-tested programs are more efficient. These two are superior theoretically to the third, which finds the opposite. On the other hand, the third is superior in some dimension in terms of its empirical methodology. See J. R. Kesselman, and Irwin Garfinkel, "Professor Friedman, meet Lady Rhys-Williams: NIT vs. CIT," Journal of Public Economy, 10 (1978), 179-216; Efraim Sadka, Irwin Garfinkel, and Kemper Moreland, "Income Testing and Social Welfare," in Income-Tested Transfer Programs: The Case For and Against; and David Betson, David Greenberg, and Richard Kasten, "A Simulation Analysis of the Economic Efficiency and Distributional Effects of Alternative Program Structures," in Income-Tested Transfer Programs: The Case For and Against.

<sup>28</sup>Garfinkel and Melli.