



# IRP Focus

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## Social Child Support: An antipoverty program for the eighties

In the United States, nearly half of the children living in households headed by their mothers are poor and on welfare. Yet less than 2 percent of these households consist of widows and their orphaned children. In the vast majority of cases, there is an absent parent who, though legally bound to do so, fails to contribute adequately to the support of his family. (Indeed, only 11 percent of the absent parents of children on welfare pay any child support at all.) Why is there so much poverty in this group? The explanation seems to lie in part in the deficiencies of the American child support system.<sup>1</sup>

### The current child support system

The amount of child support a custodial parent receives from an absent parent varies from place to place and from family to family. It is determined on a case-by-case basis in

the courts, where not only do the ability of the absent parent to pay and the needs of the children determine the amount of the award, so also do the laws of the state, the attitude of the judge, and such factors as tax consequences and the skills of the lawyers employed on the case. People in similar circumstances can and do get widely differing awards.

Because the court system is cumbersome and expensive to use, many custodial parents do not go to court at all. Those most in need of support — such as mothers who were never married — are the least likely to get it. In 1979, only 59 percent of the women eligible for child support received awards from the courts.

Furthermore, awarding child support is one thing; collecting it is another. Of the 59 percent of the custodial parents who were awarded support in 1979, only half received the full amount owed them, and 28 percent received nothing at

all. The amount of assistance a custodial parent receives in collecting payments depends on the state in which she lives. In some jurisdictions a government agency sees to it that payments are made on time, and nonpaying parents are punished. In other jurisdictions the custodial parent who is owed child support is in no better position than any other creditor trying to collect a bad debt.

This haphazard system does little to promote a sense of responsibility for their children on the part of absent parents and causes custodial parents and their children to turn to welfare.

The government program that provides assistance to needy single-parent families is Aid to Families with Dependent Children (AFDC). It is the quintessential welfare program, the one people think of when they complain that there are all those lazy people out there supporting themselves by having babies at the expense of the State. In fact studies have shown that women on AFDC want to work and will work, even though the program was not designed to enable beneficiaries to escape from dependency and poverty.<sup>2</sup>

AFDC is an income-tested program: benefits go only to those whose incomes are below a certain point.<sup>3</sup> Prior to 1967, most states reduced benefits by one dollar for every dollar earned. This 100 percent tax rate was tantamount to telling the recipient: "Don't work: Stay home and care for your children." And indeed that was the prevalent attitude of the time. But times have changed. Women with children, whether in single-parent homes or two-parent homes, are more likely to work than to stay at home. Women on welfare are held in contempt if they do not work. For a while, to encourage self-sufficiency, the government reduced the AFDC tax rates to enable welfare mothers to receive some financial rewards from working. But the Reagan administration, as part of its budget cuts, has raised the benefit reduction rate so that after four months of employment a woman is once again faced with a dollar cut for every dollar earned. Because, in addition to losing their benefits, women who earn above a given amount lose their eligibility for food stamps and Medicaid as well, and because working entails additional expenses for such items as clothes, day care, and transportation, women on AFDC find it extremely difficult to earn enough to escape from the program. AFDC provides incentives for one of two types of antisocial behavior: either giving up and remaining on the welfare roles; or cheating and remaining on the welfare roles—by taking a job in the underground economy.

### **The Social Child Support program**

In the summer of 1980 a research team from the Institute for Research on Poverty under contract to the Wisconsin Department of Health and Social Services undertook to examine the child support system in Wisconsin and to find ways to improve it. Members of the team, as well as its

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Institute for Research on Poverty  
1180 Observatory Drive  
3412 Social Science Building  
University of Wisconsin  
Madison, Wisconsin 53706

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Written by E. Uhr and Elizabeth Evanson; edited by E. Uhr.

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director, Irwin Garfinkel, had long been involved in the study of the economic treatment of children in single-parent families. Garfinkel and his associates prepared a report for the State of Wisconsin, *Child Support: Weaknesses of the Old and Features of a Proposed New System* (see box, p. 5), in which they describe a new system, Social Child Support. This reform proposal is aimed at rectifying the three chief defects of the child support programs in place in most states today: they foster parental irresponsibility; they are inequitable; and they fail to alleviate poverty.

### **The payments**

Every absent parent, no matter how poor, will be expected to share his income with his children. The amount of child support paid will be specified by a state statute. This amount will depend only upon the income of the absent parent and the number of children. The tax rate for child support will be proportional, starting with the first dollar of income, up to a maximum of, say \$50,000, and neither it nor the tax base will be altered in the event of remarriage of either parent or an increase in the size of the new family headed by the absent parent. The tax rate for the initial child will be higher than that for subsequent children, and will approach, but not reach, zero by the fifth child.

Garfinkel and his colleagues feel that this sweeping change—a legislated formula for child support—will eliminate many of the evils of the current system. Although the amounts of the payments will differ, there will be horizontal equity in that absent parents with identical incomes and the same number of children will pay the same amount.

Expecting even the poor to pay child support is another major change from the current system, for at present the overwhelming majority of those with low incomes pay no child support. It has been suggested that low-income absent parents simply cannot afford to pay. Yet if the purpose of the child support program is to foster a sense of responsibility in all who have children, clearly it cannot admit exceptions: every absent parent should contribute some amount. Requiring low-earners to pay will create some hardship for their present families if they have remarried. This is sad and unfortunate, but no more sad and unfortunate than that they should slough off their first family in order to provide for subsequent ones.

The designers of the new program feel that there will be an added advantage of using a payment formula. It should reduce one of the major causes of friction between separated parents, for there will be no squabbling, bitterness, or legal disputes over the size of the child support payment.

### **The benefits**

Every child in a household from which one parent is absent will receive either the amount paid by the absent parent or a publicly guaranteed minimum, whichever is larger. The benefit will be paid for the child, not for the custodial parent. The economic condition of the custodial parent will have no effect on the receipt of the payment. The benefit will be adjusted annually to remain at a fixed percentage of the absent parent's income, or, if the child receives the publicly guaranteed minimum, to reflect the growth in the economy. Custodial parents who receive benefits from the public coffers rather than from the absent parent will be required to pay a tax at a rate that is half the percentage owed by the absent parent.

There are several reasons for the tax on the custodial parent when the benefit comes not from the absent parent but from the general revenue. First, the custodial parent may be wealthy while the absent parent is poor. It does not seem fair that a woman (or man) with a sizable income should be subsidized by the taxpayers to raise her (or his) children. Second, this tax will help to keep the costs of the new program down. Third, it will reduce any incentive a family may have to split, the higher earner keeping custody of the children, in order to collect the minimum benefit.

The minimum benefit combined with a few thousand dollars of earnings—and the fact that the benefit is paid irrespective of the income of the custodial parent—should lift most single-parent households from poverty. It is the hope

of Garfinkel and his colleagues that AFDC will eventually dwindle into a program of last resort for a destitute few.

### **Collecting child support**

Under the proposed system of social child support, a government agency will be responsible for collecting payments from the absent parents and disbursing them to the custodial parents. In Wisconsin this would be done by a unit within the Department of Health and Social Services. The amount of the child support obligation will be withheld from the wages of those with this obligation if withholding turns out to be the best way to administer the system.

Experience with the current system has amply demonstrated that only the strongest measures will succeed in collecting child support payments from absent parents. If the social child support system fails to collect a high proportion of the payments, it will be prohibitively expensive, more so than AFDC, since the new system guarantees benefits to every child with an absent parent, whereas AFDC dispenses benefits only to those single-parent families who are poor and apply for the assistance. It is for this reason that the designers of the system tend to favor wage withholding.

To most people, wage withholding is a distasteful procedure. It takes away from the wage earner the right to decide how a portion of his income is spent. In the case of child support payments it will be an intrusion on the privacy of the parent, who may not wish people to know that he has a child or children to support. Yet there appears to be a consensus that in the matter of child support the public interest and the interests of children outweigh the rights of their parents to economic freedom and privacy. The federal government and the states have been taking an increasingly active role in pursuing absent parents, and in 1981 the IRS began to withhold tax refunds in cases where states certified that an individual owed child support. In some states absent parents who fail to pay child support are thrown in jail. Wage withholding is less draconian than jail and would ensure that all absent parents received the same treatment.

### **Costs of the new program**

Garfinkel and his colleagues have prepared a number of estimates of the money costs of the new social child support scheme if instituted in Wisconsin. They expect it to cost less than AFDC.

Table 1 estimates the savings in Wisconsin over the amount spent on AFDC in 1975 (both federal and state) for different minimum benefit levels and tax rates. In the first two plans, annual minimum benefits are equal to \$3500 for the first child and \$1500 for each subsequent child. In the third and fourth plans, minimum benefits are equal to \$2000 for the first child and \$1000 for each subsequent child. Tax rates on the absent parent are 20 percent for one child, 30 percent for two children, and 40 percent for three or more

**Table 1**

**Estimated Benefits and Costs of Alternative Child Support Reform Plans for Fiscal 1980**

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	(\$ Millions)							
<b>Plan 1</b>									
1st Child	\$3500	20%	\$590	\$419	\$83	\$169	\$81	40%	57%
2nd Child	1500	10							
Maximum		40							
<b>Plan 2</b>									
1st Child	3500	15	547	340	81	165	39	30	44
2nd Child	1500	10							
Maximum		30							
<b>Plan 3</b>									
1st Child	2000	20	461	393	46	146	125	60	77
2nd Child	1000	10							
Maximum		40							
<b>Plan 4</b>									
1st Child	2000	15	397	314	48	122	87	51	68
2nd Child	1000	10							
Maximum		30							

**Source:** Garfinkel and Melli, *Child Support*, IRP Special Report no. 32, Vol. 1, p. xi.

**Note:** These estimates are based on 1975 data from the Survey of Income and Education, in which AFDC benefits are underreported.

children in plans 1 and 3; and 15 percent for one child, 25 percent for two children, and 30 percent for three or more children in plans 2 and 4. Tax rates on the custodial parents who receive the publicly guaranteed minimum (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. In column 6 the percentage of absent parents who pay as much as or more than the minimum is presented. Column 7 presents the percentage of cases in which the amount paid by the absent parent plus the amount paid by the custodial parent equals or is greater than the child support minimum.

Savings range from a low of \$39 million to a high of \$125 million. They amount to one-seventh to two-fifths of AFDC federal and state expenditures in Wisconsin in 1980. (Newer and more accurate data are expected to show even greater savings from AFDC.)

These estimates, however, assume that 100 percent of the child support payments will be collected. Garfinkel's best guess is that under the new system 80 percent of potential revenue will be collected.

### A demonstration in Wisconsin

In order to find out whether this system will accomplish the goals its designers envision, it must be tested. Accordingly, a demonstration is being planned in six Wisconsin counties. The demonstration will contain the four basic features of the plan: a child support formula, wage withholding, a minimum benefit, and a tax on custodial parents when the absent parent pays less than the minimum benefit. It is scheduled to begin in 1983 and run for two or three years. Comparisons of the results will be made in two ways: in the same counties before and during the demonstration, and by

matching counties that participate in the demonstration with those that do not participate.

The designers of the program expect to find out not only whether the system will work at all, but, if it works, how well it works. They have to learn what the effects of the new system will be on poverty, on AFDC costs and caseloads, and on the behavior of custodial and absent parents. They will get realistic measures of administrative and operating costs. If there are administrative glitches in executing the program, they will find out.

Garfinkel and his colleagues are hopeful that they are well on their way to solving one of the intractable problems of poverty policy: how to assist the welfare mother of impoverished children. ■

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<sup>1</sup>For a more detailed description of the system see *Focus*, Vol. 4, no. 1: "Child Support: The Evaded Obligation." Statistics on the system are from works listed in the box.

<sup>2</sup>AFDC mothers who participated in the National Supported Work Demonstration increased their hours of work and their wages significantly (see *Focus*, Vol. 5, no. 3: "Supported Work: End of the Era of Social Experiments.")

<sup>3</sup>For a comprehensive examination of income-tested programs see Irwin Garfinkel, ed., *Income-Tested Transfer Programs: The Case For and Against* (New York: Academic Press, 1982).

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### Selected works

Irwin Garfinkel, "Social Science, Social Work, and Social Policy." IRP Discussion Paper no. 700-82.

Irwin Garfinkel, "The Role of Child Support in Antipoverty Policy." IRP Discussion Paper no. 713-82.

Irwin Garfinkel, "Evaluation Design for Child Support Demonstration." IRP Discussion Paper no. 714-82.

Irwin Garfinkel and Marygold Melli, *Child Support* (Vol. 1, *Weaknesses of the Old and Features of a Proposed New System*; Vol. 2, *A Demonstration of the Wisconsin Child Support Reform Program and Issue Papers*; Vol. 3, *Technical Papers*). IRP Special Report no. 32.

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