I. Description of the Problem

Our society faces a problem. Many children, especially those in poor areas, do not receive adequate child support from nonresident parents. Whether the nonresident parents simply cannot pay the necessary amounts or they choose not to do so, the result is the same: The children suffer.

A few examples may help emphasize the extent of this problem:

- In 1989, only 30% of women below the poverty line with a child by an absentee father had been awarded and were receiving child support; the situation is little better for women above the poverty line (Kimenyi 301).
- For that year, the mean child support received accounted for 37% of the mean income reported by families receiving support (Kimenyi 301).
- During fiscal year 1993, the federal Office of Child Support Enforcement reported collecting 52.7% of support currently owed, while collecting only 7.5% of back support owed (Josephson 47).

In summary, very few children receive the support they deserve, what support families do receive accounts for a large part of their income, and society is falling behind on holding nonresident parents responsible for their children.

The remainder of this paper outlines one possible solution to the child support problem. First, I will briefly describe government policy on child support to this point. After that, I will propose the basic foundations of a child-support subsidy. Next, I will examine some of the subsidy system's costs and benefits. Finally, I will explore advantages and disadvantages of that system.

II. Government Policy

In the United States, child support has traditionally fallen under family law, which is primarily controlled by the states. In the past twenty-five years or so, the federal government has taken an increasingly strong role in setting standards that the state governments must follow. This has not, however, changed results to any great extent.

While some legislation in the 1950's required states to recognize other states' support orders, the federal government's first major influence came with the Social Services Amendments of 1974. These amendments established the federal Office of Child Support Enforcement; gave the states the primary responsibility for enforcement; and required AFDC recipients to sign their child support benefits to the state, which used them to offset AFDC costs. For all practical purposes, this meant AFDC recipients saw
nothing of child support collected; this certainly did little to improve children's well-being.

The 1984 Deficit Reduction Act altered AFDC’s role somewhat. It established a $50 “pass-through” for child support collected; if the nonresident parent paid on time, the resident parent received $50 from that. At the same time, however, the act required that all household members’ income count toward determining AFDC eligibility, and that children be included in the application. So, even if a resident parent had a trouble-free support order running, that support went to offset AFDC. Again, this did little to improve matters.

Finally, 1996’s Personal Responsibility and Work Opportunity Reconciliation Act made sweeping changes. By setting a limit on TANF (formerly AFDC) benefits, it ensured that child support would play a much larger role in poor families’ incomes. In addition, it expanded work requirements for nonresident parents; it is too early to say what effect these changes will have.

III. My Proposal for Solving the Problem

The child support subsidy program described here takes elements from Irwin Garfinkel’s Child Support Assurance System and the negative income tax discussed in class. The basic idea is that the government assures a minimum level of child support, while adding a proportion of the support (if any) paid by the nonresident parent. The program has three parts:

1. The first part of the program sets a subsidy level for all parents with child support orders. Like the Child Support Assurance System, this level should provide funds sufficient to support the child in the absence of any additional support.
2. The program’s second part sets up a child support order schedule. The nonresident parent pays a specified percentage of his or her income into the system; that percentage depends primarily on the number of children.
3. Finally, the program sets a child support tax rate, which applies to the support paid by the nonresident parent. What's left after the tax goes to the resident parent, adding to the subsidy; taxes collected from this go to offset the subsidies paid out.

Some examples may make the idea clearer. For these examples, I have chosen some planning numbers for the subsidy level, support level, and tax rate. Please keep in mind that these are for illustrative purposes only, and will probably differ from any real-world values. The numbers in question are:

- **Child Support Subsidy**  
  $3,000 per year
- **Support Award**  
  17% of nonresident’s gross income for one child
- **Support Tax Rate**  
  50% of child support paid

Table 1 on Page 4 shows the results for several different nonresident income levels.
The combination of subsidy and child support results in a net support. Figure 1 below shows the net payment received by the resident parent as a function of the nonresident parent's income, as well as the actual payments made by the nonresident parent.

Table 1: Sample Child Support and Subsidy Combinations

<table>
<thead>
<tr>
<th></th>
<th>Case 1</th>
<th>Case 2</th>
<th>Case 3</th>
<th>Case 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonresident Income</td>
<td>$0</td>
<td>$10,000</td>
<td>$35,294</td>
<td>$50,000</td>
</tr>
<tr>
<td>Support Order</td>
<td>$0</td>
<td>$1,700</td>
<td>$6,000</td>
<td>$8,500</td>
</tr>
<tr>
<td>Support Tax</td>
<td>$0</td>
<td>$850</td>
<td>$3,000</td>
<td>$4,250</td>
</tr>
<tr>
<td>Resident Receives</td>
<td>$3,000</td>
<td>$3,850</td>
<td>$6,000</td>
<td>$7,250</td>
</tr>
</tbody>
</table>
Just like the negative income tax plan discussed in class, participants fall into several categories. Some resident parents will receive more money than the nonresident parent pays into the system. Some, on the other hand, will receive less money than the nonresident parent pays into the system. The "break even" point, where the amounts paid and received are equal, occurs in this figure when the nonresident parent’s income is $35,294 per year and child support is $6,000 per year.

Once again, the numbers used in these examples are illustrative only. Actual support levels and tax rates would require careful analysis based on the program’s goals. Some goals that legislators might consider are setting the subsidy level high enough to provide adequate child support, keeping the tax rate low to ensure support reaches its intended target, and controlling program costs.
These goals almost all conflict, so there are no easy decisions.

**Benefits and Costs**

This support program’s most tangible benefit is the assured level of child support. Like the Child Support Assurance System, an appropriate support level should reduce the poverty gap by making more money available to poor families. As Sorensen and Clark point out, however, reducing the poverty gap is not the same as lifting children from poverty; their estimates show a very small reduction in child poverty levels from a system like CSAS (118).

The program’s dollar cost is impossible to estimate without detailed simulations of defined support levels. In general, however, the costs could range from near zero (low benefits and high taxes) to very large (high benefits and low taxes). At one extreme, the program could amount to an untaxed subsidy for every child in the nation with a support order.

This support program would also dramatically increase administrative costs, since it would require every child support case to run through a central point. While the Internal Revenue Service could probably expand to meet the program’s needs, its poor public image would probably make this a bad idea.

**Advantages and Disadvantages**

What advantages does this system have over the current system? Right now, families receiving TANF see next to nothing of the child support paid. When TANF benefits run out, the payments will remain, but this could be several years in the future. Increased funds for poor families would benefit them immediately.

What advantages does a subsidy have over Garfinkel’s Child Support Assurance System? Under CSAS, the government makes up any difference between the child support order and the minimum level. This 100% marginal tax rate removes incentives for lower-income parents to pay child support; to avoid this, CSAS relies on stronger enforcement. The subsidy system gives incentives to lower-income nonresident parents by raising the support received as the support payment increases.

Subsidies, however, do not remove disincentives completely. The higher the support tax rate, the more likely nonresident and resident parents are to cut a private deal that bypasses the system. For example, if the tax rate were 50%, the parents may agree to exchange 75% of the award amount directly. This would give their child more money, but it would increase the overall program cost.

The subsidy system shares an additional disadvantage with the Child Support Assurance System. By setting a minimum benefit, but applying it only to those families with child support orders, these systems may encourage out-of-wedlock births and
divorces among low-income people. Avoiding this would require subsidizing every low-income family with children, which would dramatically raise the program's cost. Families with incomes above the "break-even" point, on the other hand, would find it to their advantage to avoid divorce.

One final disadvantage lies in the system's nature. To work properly, it requires every child support case to take part. This means a large degree of government involvement, most likely at the federal level, even in those cases where the parents have a working agreement in place. Recent trends have tended to decrease government's role in society, which makes change of this sort unlikely.

In conclusion, this program would not solve all the problems in the child support system. While it would ensure a minimum level of financial support, the nature of the subsidy could encourage family breakup and out-of-wedlock births. With children and money, it seems, no easy answers exist.

IV. References