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CAROL H. RASCO
Assistant to the President for Domestic Policy

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NATIONAL WOMEN'S LAW CENTER

Nancy Duff Campbell

MAR 25 RECD

Card -

*I hope you can
help with this.*

Duffy

President Clinton
March 23, 1994
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Children's Defense Fund
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NETWORK: A National Catholic Social Justice Lobby
NOW Legal Defense and Education Fund
Organization for Enforcement of Child Support
Project Get Together
Second Husband's Alliance for Fair Treatment
State Communities Aid Association
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United Church of Christ, Office for Church in Society
Wider Opportunities for Women
Women Employed
WOMEN OF REFORM JUDAISM, The Federation of Temple Sisterhood
Women Work! The National Network for Women's Employment
Women's Legal Defense Fund

cc: Donna Shalala, Secretary, Department of Health and Human Services
Mary Jo Bane, Assistant Secretary for the Administration for Children and Families
David Ellwood, Assistant Secretary for Planning and Evaluation
Bruce Reed, Deputy Assistant to the President for Domestic Policy

NATIONAL WOMEN'S LAW CENTER



March 23, 1994

President William J. Clinton
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear President Clinton:

We are pleased that improved child support enforcement is a major part of the Administration's welfare reform proposal. As a recent bipartisan poll found, 95 percent of those questioned believe that stronger enforcement measures should be taken against delinquent noncustodial parents, and 49 percent cite a lack of child support as a major cause of poverty in American families. Single parents should not and often cannot bear the sole financial responsibility for raising their children. A decent child support system is, therefore, crucial.

We appreciate the productive discussions that have been held on child support with the Welfare Reform Working Group, and understand that important child support reform measures are in the draft plan. We are, however, very concerned that one element of child support reform -- child support assurance -- may not be included in the welfare reform package. We are writing to urge you to consider including a child support assurance program in the final proposal.

Regular and reliable child support is a key factor in welfare reform to help families leave AFDC for paid employment or avoid welfare altogether. A custodial parent must be able to depend on a monthly child support payment if she is going to combine work, the Earned Income Tax Credit and child support in order to stay off AFDC and, more importantly, out of poverty. Even under the best child support enforcement system, however, there will be noncustodial parents who cannot or will not pay their child support. Under a child support assurance program, the government would guarantee a monthly child support payment to every qualifying family.

Just as survivor's insurance protects a child against the loss of a parent, child support assurance protects a child against the loss of income

James H. Hoff, Director
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Washington, DC

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President Clinton
March 23, 1994
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resulting from divorce or non-marriage. For example, if a noncustodial parent is temporarily unable to meet his child support payment, the assured benefit will replace the missing payment, at least in part, so that the custodial parent can continue supporting her family without having to turn to public assistance. Payment of the assured benefit by the government will, in turn, put pressure on the government to enforce the underlying child support order in order to recoup its outlays. Moreover, noncustodial parents will finally be part of the government's equation in determining the costs and causes of poverty, as child support assurance shifts the focus from custodial mothers who have to resort to AFDC to noncustodial fathers who have to be "backed-up" by child support assurance. The Administration's theme of "dual parental responsibility" would be put into action.

It would, therefore, be a mistake to go forward with a welfare reform plan without child support assurance. Our strong preference is for a universal program. We do appreciate, however, that it may be appropriate to phase in an assurance program before implementing it nationwide, beginning with large-scale demonstration projects that properly test implementation of the program. Such demonstrations would generate the data needed to show the positive impact that an assurance program can have on custodial parents and their children, and in particular, families now receiving AFDC. Implementing child support assurance in conjunction with welfare reform is the best way of demonstrating the value of this concept.

One out of five children in this country is poor. Child support assurance is one way to reduce that staggering number. It also advances your goals of work and independence, while at the same time truly improving the lives of countless custodial families.

Sincerely,



Nancy Duff Campbell
Co-President

On behalf of:

Amalgamated Clothing and Textile Workers Union
American Association of University Women
American Planning Association
AYUDA
Bay Area Legal Services, Inc.

NATIONAL WOMEN'S LAW CENTER



March 23, 1994

Nancy Duff Campbell
Marcia D. Greenberger
Co-Presidents
National Women's Law Center

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cc: Donna Shalala, Secretary, Department of Health and Human Services
Mary Jo Bane, Assistant Secretary for the Administration for Children and Families
David Ellwood, Assistant Secretary for Planning and Evaluation
Bruce Reed, Deputy Assistant to the President for Domestic Policy

MEMORANDUM

To: Bruce Reed
 Fr: Timothy Fong
 Re: Child Support Assurance/Enforcement Programs in other countries

Australia

Australia does not have a child support assurance program, but has instituted reforms of the child support enforcement program, starting in 1988.

The program consists of two stages. Stage I deals with collection procedures; Stage II deals with the assessment of support awards.

Some of the specifics of Stage I include:

- payments are made directly to the Child Support Agency (CSA), a national agency to collect and enforce support which is located within the Australian Taxation Office (ATO)
- employers are required to implement income withholding, treating it in the same way as income tax withholding, by sending it to the ATO
- registration is compulsory for applicants for single-parent pensions, and automatic, although not mandatory for other parents eligible for child support

Results to Stage I:

- 2 1/2 years after implementation, less than 10% of eligible parents had registered with the CSA
- wage withholding was less successful because of an underestimation of the number of self-employed noncustodial parents; employer and employees also, in some instances, colluded to inhibit or prevent such withholding arrangements.

Some specifics to Stage II:

- after deductions are taken, a percentage of the remaining obligor's taxable income is ordered as child support. That amount is based on the number of children eligible for support.
- the support award is administered by the CSA
- percentages were: 18% for one child; 27% for two; up to 36% for five or more

Results to Stage II:

- awards increased by \$8.50 a week

CLASP has done a side-by-side which outlines the different child support features for different countries. I've looked at the four countries with the most complete information.

Austria

All single mothers are entitled to child support, the level of which is determined by the original order. In order to claim child support assurance, paternity must be established and an attempt to collect the payments must have been made and failed during the six months before application for support. The custodial parent is not eligible for child support if the debtor clearly cannot pay support.

The government does operate a child support enforcement system. Out of the total support paid by the government, 36.5% was recovered.

Denmark

Although paternity is required for receiving child support, mothers can refuse to comply. Even without establishing paternity, custodial parents can still receive child support. The government does seek repayment of child support from noncustodial parent.

In 1983, 81% of the amount disbursed was collected; the costs incurred by collection, however, are not known.

Israel

Israel has a very low percentage of single-parent families.

Norway

Norway has an extensive family policy which include the following: child allowance; child care tax credits; child care cash benefits; a transitional benefit; advanced maintenance payments (which are guaranteed child support); a housing allowance.

Sweden

Successful establishment of paternity is not required; payment is conditional, however, on the custodial parent's assisting in the effort to establish paternity and fix a child support amount.

About 35% of all advance payments made are collected.

Summary:

The information on other countries' child support assurance/enforcement program appears relatively scant. Much of the detail has focussed on other aspects of family policy, such as child care allowances and part-time work provisions. There has been little evidence to explain the differences in successful collection rates for child support.



File:
Child Support Assurance

CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Robert D. Reischauer
Director

March 15, 1993

Honorable John D. Rockefeller IV
United States Senate
Washington, DC 20510

Dear Senator:

As requested in your letter of June 25, 1992, the Congressional Budget Office has prepared the enclosed cost estimate of the Child Support Insurance Demonstration Project, Title III, of S. 2237. The response to your request was delayed so we could incorporate the results of a new child support microsimulation model.

Finally, we will revise this estimate as more information becomes available on states interested in participating in the demonstration. If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

Robert D. Reischauer

Enclosure

CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 15, 1993

1. BILL NUMBER: S. 2237, Title III

2. BILL TITLE:

The Child Support Insurance Demonstration Projects

3. BILL STATUS: As introduced on February 20, 1992 and referred to the Committee on Finance.

4. BILL PURPOSE:

Title III. To establish demonstration programs that would guarantee a minimum level of child support for every eligible child not receiving such support

5. ESTIMATED COST TO THE FEDERAL GOVERNMENT:

Federal Government Costs (By fiscal year, in millions of dollars)

	1994	1995	1996	1997	1998
<hr/>					
<u>DIRECT SPENDING:</u>					
Child Support Insurance Program	75	150	160	80	0
Family Support Payments (AFDC)	-10	-20	-20	-10	0
Food Stamps	<u>20</u>	<u>40</u>	<u>40</u>	<u>20</u>	<u>0</u>
TOTAL	85	170	180	90	0

The costs of this bill fall within budget function 600.

Background

Title III of S. 2237 would authorize the creation of child support insurance demonstration projects in four to six states, which would begin in fiscal year 1994 and end in fiscal year 1997¹. The projects would be in addition to current federal and state efforts to establish and enforce child support payments for children living in one-

1. The bill calls for the demonstrations to begin in fiscal year 1993; however, based on discussions with Senator Rockefeller's staff, CBO has assumed the projects would begin in April of 1994.

parent families. Through these projects, the federal and state governments would guarantee eligible children a minimum level of child support (that is, an assured benefit) in cases where absent parents were not providing a minimal level of support. The following paragraphs outline the proposal's details, discussing the guarantee level, eligibility requirements, and the benefit's relationship to other federal programs.

Guarantee Level--The bill proposes the following minimum guarantee schedule:

<u>Number of Children</u>	<u>Annual Guarantee</u>
1	\$1,500
2	2,500
3	3,000

1500-1000-500

✓
not much
better than
1000 child

After the second child, the guarantee would increase by \$500 for each subsequent child. States would index guarantee schedules for inflation and could choose higher levels at their option. The difference between the guarantee and the amount of child support that is actually paid by the absent parent would be the assured benefit received by the custodial family.

The federal matching rate on assured benefits would be 80 percent in the first year of the demonstrations and could rise to 90 percent in subsequent years if states met certain child support enforcement standards.

Eligibility--The bill would limit program eligibility to families that have been awarded child support either through the court system or by voluntary agreement with the absent parent (which may also be approved by the court).² Data from 1989 indicate there were approximately 11.4 million mothers living with their own children whose fathers were not living in the household. About 5.5 million of those mothers had child support awards in place³. A very small number of mothers without awards, but who demonstrate "good cause" in not seeking an award, would also be eligible for assured benefits⁴. Nevertheless, the large majority of mothers who have not obtained awards

-
2. Two-thirds of women due child support payments in 1989 were awarded payments through the court system, while most other mothers had voluntary agreements with the absent parent.
 3. The term custodial mothers is used in this section because data from the Transfer Income Model (TRIM2), which is based on the Census' Current Population Survey (CPS), does not include the estimated 2.1 million divorced, separated, or never-married fathers who have custody of their children. This omission is discussed in further detail later in the estimate.
 4. An identical "good cause" exemption currently exists for AFDC families who choose not to cooperate with child support enforcement officials in seeking an award. According to administrative data, only 0.2 percent of AFDC's single parent families were granted such an exemption in fiscal year 1990.

would not be eligible for the assured benefit. Finally, eligibility would not be contingent on a family's income or assets, that is, the assured benefit would not be "means-tested." ✓

Receipt and Treatment of the Assured Benefit--To receive the benefits, eligible families would have to register for child support enforcement services through state agencies, which would deter some families from participating in the program. The benefit would not be taxed as income.

States would disregard the assured benefit as income when determining eligibility in the Medicaid, Food Stamps, housing assistance, and child care programs. The treatment of the benefit with respect to the Aid to Families with Dependent Children (AFDC) program would be more complicated. Eligibility for AFDC would not be affected by the benefit; however, AFDC payments could be reduced. One of the objectives of the proposal is to compare the effects of reducing AFDC payments by different amounts for a given level of assured benefit income. Three AFDC benefit reduction rates would be tested across the demonstration states (those are, 100 percent, 50 percent, and 0 percent): Under the 100 percent reduction rate, a state would lower AFDC benefits by \$1.00 for each \$1.00 of assured benefit income; while under the 0 percent option, states would completely disregard the assured benefit when determining AFDC payments. If a family's assured benefit were so large that their AFDC benefit fell to zero, the family would receive the caretaker's portion of the AFDC payment (that is, a state's benefit for a one-person family). ?

Benefit Recoupment--In cases where an absent parent falls behind in his or her child support payments and the custodial family receives assured benefits, the government would attempt to "recoup" those benefits through the absent parent's future support payments. Although the legislation calls for such recoupment, it does not offer implementation details. Based on discussions with Senator Rockefeller's staff, CBO's estimate assumes child support payments made in excess of the guarantee level would be recouped by the government. Moreover, we assume the government would make benefit payments and recoupments on a monthly basis. ?
= income - contingent loan

The following example, which assumes an absent parent supporting one child failed to make a child support payment in the first month of the program, illustrates the recoupment mechanism. The custodial family would receive an assured benefit of \$125 (or, the one-month equivalent of the \$1,500 annual benefit). If, in the next month, the absent parent pays \$200 in child support. Under the proposed recoupment scheme, the government would recoup \$75 (that is, the amount in excess of the monthly guarantee) and pass the remaining \$125 to the custodial family. The total amount of child support payments recouped over time would never exceed the amount of assured benefits paid to that family over time.

Disregard of Private Child Support--States would disregard the amount of private child support payments made up to the guarantee level in the Food Stamp, Medicaid, housing assistance, and child care programs. Current law would continue in AFDC, that is, states would disregard the first \$50 of private child support to the family each month.⁵

Basis of Estimate

CBO approached this estimate in two stages. First, CBO assessed the cost of a child support insurance program operating on a national scale in 1994. Second, CBO scaled costs down to reflect the demonstration's limited size and duration. CBO did not account for important behavioral effects (for example, labor supply responses of custodial or non-custodial parents), which may be incorporated in future estimates.

Costs at the National Level in 1994--CBO estimates the federal and state cost of a national assured benefit--net of AFDC and food stamp effects--would fall between \$2.4 billion to \$3.4 billion a year, depending how the payments would be treated in the AFDC program. The federal cost would fall between \$2.4 billion and \$2.9 billion. These figures assume participation among eligible families would be roughly 60 percent and would rise over the three-year period.⁶

The annual gross cost of the assured benefit--the total value of assured benefits going to custodial families before recoupments--is an estimated \$3.2 billion, with 1.9 million families receiving a payment in at least one month of the year (see Table 2). Families would receive an annual average \$1,675 in assured payments; however, about one-third of those families would have a total \$0.5 billion in child support payments recouped by the government. Therefore, the net cost of the assured benefit, before interactions with other programs, would be \$2.7 billion.

5. Notably, in states where the assured benefit is disregarded as income in the AFDC program, a family with \$125 in assured benefits would be financially better off than a family with \$125 in private child support income. However, in states where assured benefits offset AFDC payments dollar for dollar, families with \$125 in assured benefits would be slightly worse off than families with \$125 in private child support payments.
6. Participation in government programs in which the potential recipient would have to apply for benefits would be less than 100 percent. Based on findings from other federal transfer programs (for example, AFDC and Food Stamps), we assumed the participation rate--in a child support insurance program--would be roughly 70 percent, with the custodial family's income, and the size of the assured benefit being the primary determinants of participation. Such a participation rate would be achieved several years after the program's initial implementation. Therefore, given that this is a new and relatively short program, we assumed that in the first year of the demonstration 92 percent of eligible AFDC families and 43 percent of eligible non-AFDC families would apply to receive benefits, yielding an overall participation rate of roughly 60 percent. We anticipate high participation among AFDC recipients because--given the relative federal matching rates--states would have a strong financial incentive to move individuals from the AFDC to the Child Support Insurance program.

= shift to fed.
to take advan. of
higher matching rate.

TABLE 2.
GROSS COST OF CHILD SUPPORT INSURANCE PROGRAM
OPERATING NATIONWIDE IN 1994*

FAMILY ESTIMATES (Millions of Families)	
Demographically Eligible for Child Support ^a	14.6
Families with a Child Support Award	6.7
Families Eligible for Assured Benefit	3.3
Families Receiving an Assured Benefit ^c	1.9
ASSURED BENEFIT ESTIMATE (1994 Dollars)	
Annual Gross Benefit per Family	1,675
Gross Annual Payments (Billions of Dollars)	3.2
RECOUPMENT ESTIMATE (1994 Dollars)	
Families with Payments Recouped (Millions of Families)	0.6
Average Recouped for Families with Recoupment	725
Total Child Support Payments Recouped (Billions of Dollars)	0.5
GROSS PAYMENTS LESS RECOUPMENT (Billions of Dollars)^d	2.7
FEDERAL SHARE AT 80 Percent (Billions of Dollars)	2.2

→ **
 Recoup 500m of
 3.2 - 0.5 = 2.7

Source: Congressional Budget Office based on adjusted results from the Urban Institute's Transfer Income Model, Version Two (TRIM2).

- CBO relied on output from the TRIM2 microsimulation model for these estimates. The model is still under development, and future improvements may affect our estimate of this proposal.
- This figure is comprised of 11.4 million custodial mothers identified as of 1989 in the TRIM2 simulation; an additional 1.1 million custodial mothers to account for growth in that population between 1989 and 1994; and 2.1 million custodial fathers.
- These estimates assume 92 percent participation among eligible AFDC families and 43 percent participation among eligible families who are not in the AFDC program.
- These totals do not account for costs/savings associated with behavioral changes of affected families. Moreover, they do not reflect the cost of administering the program.

Those eligible for the benefit would represent about half of the families with a child support award in place. The remainder of families with an award who would be ineligible for benefits have child support payments in excess of their assured benefits' guarantee levels in every month of the year. Poor families would comprise almost 30 percent of all eligible families and could receive up to \$1.0 billion in assured benefits after recoupment. Families with incomes in excess of 200 percent of the poverty level would account for about 45 percent of eligible families and potentially could receive \$1.0 billion after recoupment; however, CBO assumes families with higher incomes would be less likely to apply for their benefits⁷.

Effects in Other Federal Programs--CBO also attempted to isolate the effects of the assured benefit on AFDC and food stamp participants. We estimate roughly one-fifth of single-parent families that receive AFDC would be eligible to receive an assured benefit.⁸ Notably, the large majority of AFDC families would be ineligible for the program because they would not have obtained a child support award through the court system or by an agreement with the absent parent.

The bill's effect on the total cost of the AFDC program would vary significantly across the three offset options--each of which would be implemented in at least one demonstration state (see Table 3). As expected, if the assured benefit is not treated as income in AFDC (that is, Option 1), the AFDC caseload and benefits would stay at the same level. Increasing the AFDC offset to 100 percent (that is, \$1 in assured benefits reduces AFDC benefits by \$1) would reduce average annual AFDC benefits by 5.0 percent; total program costs would fall by \$1.1 billion. The AFDC caseload would not decline under any of the options because the bill would give the caretaker's benefit to families whose AFDC benefit fell to zero.

Food stamp caseload and benefits would increase in each of the three options, with the total program cost rising by between \$0.7 billion and \$0.8 billion. The increase would be caused primarily by the proposed change in the food stamp rules to disregard private child support payments up to the guarantee level. Under current law, states count private child support payments as income for the purpose of determining food stamp eligibility and benefits. Food stamp benefits would also increase because a number of families would effectively trade AFDC income (which lowers a family's food stamp benefits) for assured benefit income (which does not affect food stamp benefits). why?

-
7. The family income statuses reported in this paragraph do not take into account the assured benefit income. In other words, these are the conditions of the families before the program is implemented.
 8. Child support program experts speculate that the TRIM2 model slightly underestimates the number of AFDC families that would be eligible for an assured benefit. Future improvements to the model could affect our estimate of this proposal.

TABLE 3.
NET COST OF CHILD SUPPORT INSURANCE PROGRAM OPERATING
NATIONWIDE IN 1994^a

	Option One: No AFDC Reduction ^b	Option Two: 50 Percent AFDC Reduction ^b	Option Three: 100 Percent AFDC Reduction ^b
ASSURED BENEFIT PAYMENTS^c			
Annual Payments (Billions of Dollars)	2.7	2.7	2.7
Federal Share at 80 Percent (Billions of Dollars)	2.2	2.2	2.2
EFFECTS IN THE AFDC PROGRAM			
Change in the AFDC Caseload (Percent)	0.0	0.0	0.0
Change in Average Annual Benefits (Percent) ^d	0.0	-2.5	-5.0
Change in Program Cost (Billions of Dollars)	0.0	-0.6	-1.1
Federal Share at 55 Percent (Billions of Dollars)	0.0	-0.3	-0.6
EFFECTS IN THE FOOD STAMP PROGRAM			
Change in Food Stamp Caseload (Percent)	0.6	0.6	0.6
Change in Average Annual Benefit (Percent)	2.4	2.9	3.2
Change in Program Cost (Billions of Dollars) ^e	0.7	0.8	0.8
Federal Share at 100 Percent (Billions of Dollars)	0.7	0.8	0.8
NET COST OF CHILD INSURANCE PROGRAM^f			
(Billions of Dollars)	3.4	3.0	2.4
FEDERAL SHARE (Billions of Dollars)			
	2.9	2.7	2.4

Source: Congressional Budget Office based on adjusted results from the Urban Institute's Transfer Income Model, Version Two (TRIM2).

- a. CBO relied on output from the TRIM2 microsimulation model for these estimates. The model is still under development, and future improvements may affect our estimate of this proposal.
- b. Under option one, states would completely disregard the assured benefit as income in the AFDC program; under option two, states would reduce AFDC payments by \$0.50 for each \$1 of assured benefits received; and under option three, states would reduce AFDC payments by \$1 for each \$1 of assured benefits received. If the family's AFDC payment falls to zero under any of the options, the state would provide the caretaker's portion of the AFDC payment to the family.
- c. See Table 2 for detail. These estimates assume 92 percent participation among eligible AFDC families and 43 percent participation among eligible families who are not in the AFDC program.
- d. These figures reflect a slight reduction in private child support payments retained by the government due to the recoupment process.
- e. The estimated cost of disregarding private child support payments is \$0.7 billion in each of the three options.
- f. These totals do not account for costs/savings associated with behavioral changes of affected families. Moreover, they do not reflect the cost of administering the program.

Because the proposal would disregard certain private child support payments in Medicaid, housing assistance, and child care programs, families could become eligible for additional benefits. Because appropriation amounts determine the size of the housing assistance and child care programs, this proposal would not increase federal entitlement spending. The cost of disregarding certain child support in Medicaid, which would affect a number of poor families who are not on AFDC, is small.

Derivation of the 1994 Estimates---CBO's estimate of a national child support insurance system is based on the Urban Institute's new TRIM2 child support model⁹. The model incorporates data from the Census' Current Population Survey (CPS) and its companion Child Support and Alimony survey. These data sources provide detailed information on family characteristics and incomes, including the amounts of child support that are due to and received by families. Comparing the child support and income statuses of individual families with the program rules outlined above, TRIM2 can estimate the number of families that would be eligible to receive an assured benefit, the average amount of the benefit, and the changes in payments in other programs resulting from the assured benefit.

The TRIM2 simulations indicated that, at 1989 child support payment and assured benefit levels, the federal and state cost--net of AFDC and food stamp effects--would fall between \$1.5 billion and \$2.2 billion. In 1989, an estimated 1.5 million custodial families would have received an average assured benefit of \$1,385 per year (1989 dollars).

Problems with the TRIM2 Estimates--The CPS data on child support, which underlie the TRIM2 estimates, have many problems. The most serious is an under count of the families and children eligible for the assured benefit. An obvious omission is the estimated 2.1 million custodial fathers who would be potentially eligible for such payments. This under count causes a considerable underestimate of costs. This is offset by the fact that families, on average, underreport the amount of their child support payments, which causes the program's gross and net costs to be overstated.

Additional problems arise because the CPS child support data were last collected in 1989. TRIM2's estimates reflect costs of an assured benefit that would have been in place in 1989. Thus, the number of families eligible for child support and their award and payment levels in effect in that year are taken as given. Yet, they are likely to be higher now. The Family Support Act of 1988 made major changes to the child support system, including the use of state guidelines in setting child support awards and mandating the withholding of child support payments from wages. These reforms will generally increase the amount of a family's child support award as well as the child support payments the family actually receives. Therefore, the actual cost of an

9. TRIM2 (Transfer Income Model, Version 2) is a comprehensive microsimulation model of the transfer and tax programs affecting individuals and households.

assured benefit would be lower than those simulated by TRIM2. Offsetting this reduced cost is a greater number of families eligible for child support, resulting from new divorces and separations each year and a continuing increase in births to never-married mothers.

CBO adjusted the TRIM2 results in several ways to update the findings and correct for the underlying data problems. First, we added 2.1 million custodial fathers to the pool of families deemed categorically eligible for child support. Data indicate custodial fathers are less likely to obtain a child support award than their female counterparts; therefore, we assumed a smaller percentage of these families would be eligible for an assured benefit. Second, based on the recent growth in the number of female-headed families, we estimated there would be 10 percent more custodial mothers in 1994 than there were in 1989. We assumed this additional pool would receive the assured benefit at the same rate as the mothers who were identified in 1989. Third, TRIM2's estimated AFDC and food stamp effects were adjusted to reflect the fact that those programs will have more child support eligible families in 1994 than in 1989. Finally, average assured benefit and recoupment amounts were assumed to increase with inflation¹⁰.

Converting National Costs to Demonstration Costs--The estimated cost of the demonstrations is highly uncertain. We do not know how many (four, five, or six), or which states would ultimately participate in these demonstrations or whether the participating states would implement their programs statewide. Moreover, we cannot anticipate how successful states would be in recruiting participants among the eligible population, especially given the limited duration of the demonstrations. Finally, a new policy of this nature could alter the behavior of the affected families, which in turn could impact costs. With these uncertainties in mind, CBO arrived at the final demonstration costs through the following assumptions:

- o The three AFDC offset options would be represented equally across the demonstration sites. In addition, we assumed administrative costs would represent 10 percent of assured benefit payments (the federal match is assumed to be 80 percent). The percentage is expected to be lower than is found in other programs (for example, AFDC and Food Stamps) because caseworkers would be working with a relatively stable caseload and would not have to check

10. CBO assumed that the proposal's guarantee schedule and private child support payments increase with inflation (the proposal calls for an inflation-indexed guarantee schedule). Therefore, we also assumed average assured benefits, which are based on the difference between the two, would grow with inflation. The assumption that child support payments increase with inflation is based on evidence from past child support surveys, which indicate the average amount of child support received by families remained at \$2,250 (in 1989 dollars) between 1987 and 1989. Improved enforcement and increases in the wages of absent parents drive the nominal growth in payments.

incomes or assets of the recipient families.¹¹ These costs would be in addition to CBO's current estimate of child support administrative expenditures. Taken together, these two assumptions yield a net cost of \$3.2 billion for a national program operating in 1994, of which the federal share would be \$2.8 billion.

- o Six states of average size would participate in the demonstrations. Given the limited time available to organize the projects and the uncertainty surrounding their cost, CBO assumed states, on average, would offer the programs to only one-half of their populations.¹²

These assumptions reduce the annual federal cost to approximately \$160 million. The April 1994 implementation assumption lowers the fiscal year 1994 cost to \$80 million.

- o Based on similar child support demonstrations, CBO estimates the six states would make a one-time expenditure of \$5 million for the development of automated systems. The federal share would be \$4.5 million.
- o The federal cost would rise slightly over the three year demonstration because participation would increase as more families become aware of the program and because the bill calls for a higher federal matching rate in the second and third year.

6. PAY-AS-YOU-GO CONSIDERATIONS:

The Budget Enforcement Act of 1990 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts through 1995. The pay-as-you-go effects of the bill are as follows.

-
- 11. Some families who are not eligible for the assured benefit in the short run may join the program with the expectation that the absent parent may miss child support payments in the future. Administrative costs associated with such families are not likely to be large in a time-limited demonstration.
 - 12. We assume a state operating a demonstration with a 100 percent AFDC offset, which is less expensive, would be more willing to offer the program statewide, whereas, a state with a 0 percent AFDC offset would probably limit the program to a number of counties.

(by fiscal years, in millions of dollars)

	1994	1995
Outlays	85	170
Receipts	Not Applicable	

7. **ESTIMATED COST TO STATE AND LOCAL GOVERNMENTS:** State and local government outlays would increase by \$10 million in each of fiscal years 1994 through 1997.
8. **ESTIMATE COMPARISON:** None.
9. **PREVIOUS CBO ESTIMATE:** None.
10. **ESTIMATE PREPARED BY:** John Tapogna (226-2820)
11. **ESTIMATE APPROVED BY:**



C. G. Nuckols
Assistant Director
for Budget Analysis

Moving to avert the welfare train wreck

Finally, President Clinton has appointed a task force to develop his famous plan "to end welfare as we know it, to break the permanent culture of dependence." That's the good news.

But Sen. Daniel P. Moynihan, the man in politics who knows the welfare issue best, is not happy. He says that if the Clinton plan embodies the principles that have been ascribed to it, it will be "a political train wreck waiting to happen." That, says Moynihan, is because "there is a dirty little secret to it."

The secret is simple: The Clinton plan — at least based on what has been said about it by Clinton and others — will not end welfare as we know it. Not even close. Douglas Besharov of the American Enterprise Institute estimates that under the (admittedly vague) Clinton program a typical welfare mother will still receive about 90 percent of her current benefits.

How so? The guts of the plan is "two years and out." That ostensibly means that for up to two years able-bodied welfare mothers will get major support for education, job training and child care, but then must get a job or lose benefits.

But what happens if a welfare recipient doesn't go to work? Based on the ideas propounded

by Clinton, the only penalty would be a loss of the mother's share of an Aid to Families with Dependent Children grant. Thus, the mother continues to receive her children's share of the AFDC grant. And food stamps. And housing grants. And Medicaid. And Women-Infant-Children benefits. And is eligible for about 70 smaller pro-

THE VIEW FROM HERE

BEN WATTENBERG



court-awarded child-support grant!"

The whole welfare situation is a mess, driven by a massive increase in illegitimate births. Nothing seems to work. Moynihan's Family Support Act (1988) was designed to transform welfare into workfare. But it isn't panning out. A new report by the Public Policy Institute of New York State reveals that the New York effort to reform the system has made it worse, partly because it is based on the idea that "entry-level" jobs are not good enough for welfare recipients.

Is there an answer? A quick cut-off of welfare leaves innocent children in peril. Incremental tinkering with AFDC does not change the bonuses for feckless reproductive behavior, thus guaranteeing another generation hooked on dependency.

My sense is that the welfare situation must be

seen whole — AFDC, food stamps, housing grants, and most of the rest. Then those "Greater Welfare" programs must be reduced, over time, for able-bodied, long-term poor people. An automatic

across-the-board cut of, say, 10 percent per year for five years would send the message to future generations that America will no longer make it easy to have children out of wedlock.

Liberals will fight even the original Clinton formulation, let alone any dramatic change in Greater Welfare. But if the task force moves in a

File under

- ① Child Support Assurance
- ② W.R. - Clips

centive to work.

Moreover, one of the task force's co-chairmen, Harvard Professor David Ellwood, proposes to establish a "child support assurance system." That new program would give extra money to children whose fathers are not paying child support.

(Ellwood is a mystery. Is he the tough "two years and out" advocate? Or is he the soft "government as Daddy" proponent?)

The politics of all this, says Moynihan, are potentially catastrophic: "What an awful surprise voters will get when they find out that ending welfare means being able to retell on a

fight might be Clinton's political salvation. It would help America and prove to voters that it was no trick when Clinton said, "welfare should be a helping hand, not a way of life."

Could a tough plan emerge from the Clinton task force? Bruce Reed, another co-chairman of the task force, says the group will look beyond just AFDC to the entire range of welfare programs, with a guiding light of "the bolder the better."

Only such an approach can avert a train wreck.

Ben Wattenberg is a senior fellow at the American Enterprise Institute.

CHILD SUPPORT ASSURANCE

Intro

David wrote a book; I just read it.
In the end, we come out at same place.
I've tried to be for CSA, but a few probs I can't get around

intriguing idea, better > welfare system, work incentive

We Agree on Flaws in Current System

System is demeaning and ineffective.
Puts too much burden on woman to brave the bureaucracy
Many state's main interest in CSE is reducing or offsetting welfare costs
Result: millions of children go without; millions of fathers get off the hook

My Troubles with CSA -- some practical, others philosophical

Would it improve enforcement, increase resp, strengthen family?

Insurance

1. CSA assumes away the central problem, which is enforcement

There's no question that a guaranteed min benefit would help kids. *→ \$2B only if low particip.*
\$20 Billion Question is whether CSA would dramatically improve CS collection from fathers.

Giving people money is obviously one way to fight poverty. But CSA says, let's give every single mother some money before we know whether we can get that money back.

We have enormous enforcement probs that CSA does nothing to address:

30% interstate cases that fall through the cracks;

15 million children with fathers who regardless of class ignore their obligation to pay

DE says CSA will increase paternity establishment, b/c no mother will get any money unless she cooperates. Perhaps. But establishing paternity, while important, doesn't guarantee collection. AFDC rules already require women to cooperate, and the collection rate is abysmal.

Besides, there are easier, cheaper ways to estab paternity -e.g., as part of health reform, we could require every hospital to ask.

DE will tell you that if the govt were shelling out billions a year in guaranteed min benefits, it would finally get serious about CSE. Perhaps. But you could make the same argument of welfare, that a govt that spends \$20b/yr maintaining people on welfare would get serious about getting people off. It hasn't.

This isn't a question about motivating govt; it's a question about changing human behavior.

Philosophical

2. CSA sends exactly the wrong signal at the wrong time. It's anti-family, anti-work, and anti-responsibility.

1) It lets fathers off the hook. Why should a father who doesn't pay now, when his children are starving, change his mind and decide to pay when he knows the govt will pay whether he does or not?

If he's too poor to pay now, what about this plan is going to encourage him to work.

2) It discourages families from staying together. CSA says, the govt will guarantee you \$2500 if your marriage or relationship breaks up. For many women, that's more than their man is contributing now.

Even if you don't think that's a direct incentive to break up, it could create perverse side effects and gaming of the system. Rewards single parents over parents who stay together.

78-92 - Paternity 20-34%, Unwed births up paternity doubled

3) It assumes that CS is a poverty problem, rather than a responsibility problem. The trouble w/CSE is that it has always been treated as a welfare problem, rather than a societywide obligation.

Middle class fathers are deadbeats too -- but this system could become welfare for single parents regardless of age

Rich & get awards

I support experiments to see whether CSA improves enforcement. If it worked perfectly, perhaps the values Q's could be overcome.

But I'm deeply troubled by the values behind it. As we said at our 1st mtg, values are the most important thing. If we get the values right, our plan will succeed, no matter who carries it out. If we don't, it will fail.

Politics

WHAT AM I FOR INSTEAD?

Incentives to inspire respons:
- HC, credit, Paternity/Health Reform

Fed collection of interstate cases

Improve collection at state level

- statewide registries

- reg. states to spend CSE \$ on CSE, instead of subsidizing welfare systems

Alternative - enormous children's allowance, to single + 2-parent families, poor + m-class

If govt doesn't collect, who should be accountable - govt or kids?

Compared to what?

Not only way

SECURITY FOR AMERICA'S CHILDREN

File:
Child support assurance

4TH ANNUAL CONFERENCE AND MEMBERSHIP MEETING

JANUARY 30 - 31, 1992

LOEWS L'ENFANT PLAZA HOTEL

WASHINGTON, DC

"How Much Does Poverty Matter?"

By

Mary Jo Bane
Harvard University

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I am delighted to be with you today, at this important meeting of the National Academy of Social Insurance on security for America's children. I am convinced that we ought to be thinking about the problems of poverty and welfare as they affect children in the context of social insurance and am pleased to be in such good company. I was invited to speak this afternoon on the question of how much poverty matters. I want to broaden that question to address not only the question of how family income affects outcomes for children but also the question of how much it matters to children whether that income comes from one source rather than another.

Let me set the context for this discussion from two perspectives. One part of the context is set by the facts about poverty and welfare among children--facts that you are almost certainly quite familiar with. The Census Bureau reports that in 1990 20.6 percent of children under 18 lived in households with incomes below the poverty line, which was set at about \$13,300 for a family of four in that year. The poverty rate among children was at a low of 14 percent in 1969. The poverty rate is cyclical, and reached a high of 22.3 percent in 1983. There is also a trend though: the "good year" of 1978 saw a poverty rate among children that was 1.9 percentage points higher than that of 1969; the "good year" of 1988 saw a poverty rate among children that was 3.6 percentage points higher than that of 1978.

Lying behind these facts are the depressingly familiar facts

about trends in family composition. In 1990, only 73 percent of children were living with both their parents. About half of all children will live in a single parent family at some point during their childhood. The poverty rate for female headed families with children was 44.5 percent, lower than 1959 (59.9 percent) but higher than 1979 (39.6 percent). Poor female headed families in 1990 received almost half their income from public assistance. Most of the rest came from the mothers' own relatively meager earnings and the earnings of others in the household. Poor female headed families received virtually no child support.

These facts reflect the terrible bind that single mothers with low earnings potential find themselves in. Most two parent families these days find they need two earners in order to get by. Single parent families, by definition, have only one potential earner, and that person is also solely responsible for the care of the children. If she has to pay for child care, a single parent with two children has to work full time at about \$7.00 an hour to support her family at a level above the poverty line. In most states, women with poor educations and little work experience, who can't make that kind of money, are better off on welfare, despite low benefits and the harrassment the welfare system imposes on recipients.

So poverty and welfare receipt are closely intertwined for most single parent families. And that leads us to a second aspect of the context for our discussions today: the alleged "welfare reform" efforts of states struggling with budget crises. In very

few states in recent years have AFDC benefits kept up with inflation; a number of states have enacted or proposed actual benefit cuts. Other states are imposing new rules and requirements on welfare recipients: requirements to work and go to school, penalties for additional children and so on. The intent of these proposals, in addition to saving money for the state, is to encourage independence. The effects may well be lower income and increased poverty among at least some children.

I will return at the end of my talk to the question of what we ought to do about all this. Before I do that, though, let us turn to the question about which I was asked to speak: the question of how much difference it really makes to children, in the long run, if family income is lower rather than higher, and the question of how much difference it really makes, if any, where family income comes from. The answers to those questions no doubt seem obvious to you, as they did to me when about six months ago I started working with a developmental psychologist, Larry Aber, on a cross disciplinary review of the literature on the effects of poverty on children. It turns out we don't know as much as we thought we did, or as we should. But there is some exciting new research that is relevant to the issues you are dealing with here. Let me give some of the bad news first, and then some of the good news.

The reason we think we know the answer to the question of how poverty affects children's development and later outcomes is that we know, both through personal experience and from data, that poor children don't do as well as better off children along a number of

dimensions. They have more physical and mental health problems; they don't perform as well on achievement tests; they don't get as much schooling. The differences are consistent and well-documented in a number of reviews, including an excellent review titled "Alive and Well?" that was done by Lorraine Klerman for the National Center for Children in Poverty, and that I now quote shamelessly on numerous occasions.

But it is also the case that poor children differ from better off children in a number of ways in addition to having less family income: They are much less likely to be in two-parent homes, they are likely to have less well educated parents, their parents are less likely to be working, their families are more likely to receive welfare, their schools and communities are less likely to be viable. Asking which of these variables are actually affecting children's development is more than a statistician's quibble: it is vitally important in thinking through whether our efforts on behalf of "security for America's children" ought to be focused on stemming welfare cuts, encouraging family financial independence, providing family services or improving educational and health services. Even if we conclude that the answer to that question is "all"--which we are likely to conclude--it is important in these troubled fiscal times to understand where we are likely to get the most benefit for our dollars.

My colleagues and I have found the developmental psychology literature surprisingly limited in answering these questions. Developmental psychologists do indeed understand that the social

and economic conditions of children's families are related to their development, and all the good studies control for these conditions in one way or another. But psychologists tend to believe that to the extent children's development is affected by their environment, the important aspects of that environment are defined by parent-child interaction, parental warmth, order and structure, cognitive stimulation and so on. They believe that money is likely to affect children's development only through other aspects of the family environment, and they have not spent very much time studying that direct link. They have not been systematic about pulling apart the effects of the social and economic background variables that they use as controls: Since they have only marginal interest in the separate direct effects of family income, family structure, education, income sources and so on, they use one or a combination of these variables as controls and don't look systematically at their separate effects. Most of the developmental research that we have reviewed is consistent with a conclusion that various aspects of family environment, including its social and economic status, affect children's cognitive and social development. But the developmentalists seem to be only beginning to explore the indirect links between family background, family interaction patterns and child development.

Economists and other quantitative researchers have used longitudinal data to explore the links between various aspects of children's situations, including family income, and later outcomes. Their studies lack the attention to the internal family processes

and detailed structure of the home environment that developmentalists, almost surely correctly, consider so important. Nonetheless, they are generating some interesting findings that are relevant to our discussion here today.

I want to describe a few of these studies for you. They're not perfect, but they do seem to be generating some plausible and reasonably consistent results.

First, a group of studies have been done using the Panel Study of Income Dynamics, a unique twenty odd year longitudinal study of over five thousand households, to look at the effects of family background on outcomes for children. A dissertation that was done by one of our graduate students, Naomi Goldstein, is representative of the findings as a whole. She looked at two outcomes: school completion or lack thereof and early childbearing, and a number of independent variables including measures of parental education, family structure, and family income. For predicting school completion, she found that by far the most important background variable was parental education. If you could change only one thing in children's lives, this would be it. We don't know quite how it works, but there are lots of plausible patterns: More talk, more reading, more motivation. She also found that family income matters, too: both education and income are important. Again, there are many plausible stories. Income can buy books and toys, good care, better school environments, fewer distractions in the household. When she looked at early childbearing, neither income nor education seemed to be so important. Instead family structure

variables seemed to be more important. All of this makes sense, and serves to remind us that we are looking at extremely complicated processes.

Second, there have been a couple of studies that look at the effects of income from different sources. The effects of income on children's outcomes, in the studies I just discussed, are smaller than many people expected. Partly that is because other variables that are correlated with income, particularly education, appear to be more important than income per se. But there is another possibility. Income can come from different sources, and it is possible that some income sources may be accompanied by negative effects, in addition to the positive effects of having more money. For example, family income may go up if the second parent in a two parent family goes to work. His or (usually) her work increases family income, but it also means that he or she has less time to spend with the children. The simple lack of adult time or supervision, poor day care, and/or the stresses associated with work, may affect the children adversely. Another example comes from welfare. Welfare is money, just like other income. But it is also money that is associated with and perhaps even encourages parents who do not work and isolation from the economic and social mainstream. Income from welfare may not have the same positive effects on children as income from other sources.

Hill and Duncan, among others, have studied the effects of income sources on children's education and work experience. They found that head's earnings had a positive relationship to outcomes,

but that spouse's earnings and welfare had the ambiguous effects suggested by the above logic. A study that Ginger Knox and I are currently doing on the effects of income and income sources on children who spent any part of their childhood in single parent families makes the same points even more dramatically. We used the PSID to look at the relationships between income from different sources during ten years of childhood on educational attainment at age 21. We first looked at the effect of average family income on children's educational attainment, and found that it was marginally positive. We then broke income into two parts, income during two parent years and income during one parent years. Though income during two parent years had the expected positive effect, higher income during one parent years did not seem to increase children's educational attainment overall. We then looked at the effects of different income sources, with the surprising result that child support income appeared to have strongly positive effects, while income from welfare and mother's earnings had ambiguous effects. These findings thus support an interpretation that says income is not simply income, but that it is not just a proxy for other characteristics either: it matters where income comes from.

This finding was reinforced by another study that sheds some additional light on the issues before us. Nazli Baydar and Jeanne Brooks-Gunn used the national longitudinal surveys to look at the antecedents of children's scores on a cognitive test and an index of behavior problems. The study controlled for the child's prior test score, and thus provided a strong test of the effects of the

variables of interest. Two findings are of great importance. One is that scores on something called the HOME inventory were strongly predictive of cognitive skills and of behavior problems. The HOME inventory is turning out to be measuring a powerful set of intervening variables between family background and children's development. It includes a number of dimensions, including parental warmth, the cognitive environment and so on. In other studies, it appears to "explain" a good deal of the apparent affect of parental education and family SES on children's development. Even controlling for this powerful variable, however, Baydar and Brooks-Gunn found that receiving child support had a positive effect on children's development. Again: income counts, largely because it can be translated into features of the home and family environment that affect children positively; whether the effects turn out to be positive depends to at least some extent on where the money comes from.

If these findings hold up in future research, and I suspect they may, they have very important implications for how we think about security for America's children. They are relevant to, though not determinative of, the debate over income versus services. Some people might interpret the data on the relatively weak effects of income on children's development as supporting the brief for services: other aspects of the family environment besides income are important so we should try to directly improve those aspects, through parent training, pre-school education and so on, rather than spending the equivalent amount of money on family

income support. We have to remember, though, that in most of the good studies an income effect remains even after controlling most of the things that might be affected by services. Moreover, the effectiveness of services is far from proven. Thus I think we can feel safe in following our intuitions that say children's lives are likely to be improved if children's families have more money.

But the research is also beginning to suggest that it matters where the money comes from, and that some policies for increasing income are better than others. Welfare is clearly not the best way to improve the lives of children. Welfare brings with it many negative features, that seem likely to harm children if welfare becomes a long term way of life. At the same time, increased work by the second parent in two-parent families or by the single parent in one-parent families is not an unambiguous good. The inevitable accompanying losses in time and the potential losses in supervision and in quality of care take at least some toll, for at least some children. The only income source that seems to be unambiguously positive for children in one-parent families is child support. It is not stigmatizing or isolating like welfare; it is not draining of parental time and energy like full time work. A combination of work and child support seems to be better for children than either relying on maternal earnings or welfare alone, or a combination of welfare and work and welfare.

This research reinforces for me a position that I and others have been developing over the years on the best routes to income security for that very large proportion of children who will spend

part of their childhood in single parent homes. Child support is the key, and guaranteed child support, not welfare, ought to be the emphasis of government policy.

Let me then close by spending a few minutes reinforcing a pitch that I know you will hear from others at this conference on child support enforcement and insurance. We have to provide economic security for children in single parent homes; much as we might like to make them go away, the trend is inexorable, and far too many children are involved to be ignored. Welfare is not the answer--though punitive cuts in welfare are, of course, not the answer either. Recipients don't want to receive welfare, and taxpayers don't want to pay for it. But work alone is not the answer either. Only a few single parents can do the work of two; and remember that means being able to earn income equal to that of one and a half workers, which is the norm in two-parent families, as well as provide for child care. Single parents shouldn't have to do the work of two; in virtually all cases, children have a second living parent.

Absent parents need to pay their fair share. We've made some progress on that front but we need to do much more, in terms of paternity establishment, award guidelines, simplified procedures for obtaining awards, and automatic wage withholding. But in addition to enforcing child support, the government ought to guarantee child support. Single parents need to be able to count on minimum child support, the regular receipt of enough child support to make it possible for them to support their families with

a reasonable amount of work. I believe the government ought to guarantee a minimum amount of child support to every single parent. With appropriate child support enforcement, such a program if designed appropriately could benefit everybody: it could reinforce family responsibility, get families off welfare and make them better off. It would be a genuine social insurance program, in the tradition of this country's finest efforts to ensure economic security for its citizens. We can talk about the details of how such a program might work during the question period if you like, and I'm sure you will hear more about it in the rest of this conference.

Let me close by applauding the National Academy of Social Insurance for turning its attention to children. You could have substantial impact on the prospects for children in the years to come. There is nothing more important.

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