



Child support compliance during economic downturns



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ABSTRACT

Prior studies have found little evidence of an association between unemployment and child support compliance. However, few such studies used sample periods including a recession as severe as the one that occurred in 2007–2009 or a period following the Congressional mandate requiring states to adopt immediate wage withholding for all child support orders established after January 1992. While virtually assuring compliance by steadily employed nonresident fathers, this requirement imposes hardships on unemployed nonresident fathers, especially during recessions, because modifying child support orders is costly, difficult, and uncertain. Using the CPS-CSS, this study provides reduced form estimates of the association between unemployment and child support compliance over a period (1993–2011) with severe business cycle fluctuations and immediate wage withholding in full effect. Despite controls for fixed effects (state and year) and a state-specific linear time trend, we found that local unemployment rates were associated with decreases in some measures of compliance in our full sample. In models using non-pass through child support payments, which minimized measurement error due to misreporting, there was a much more consistent relationship between unemployment and compliance. Further, after restricting the sample to cash assistance recipients to avoid bias due to selection into the child support enforcement system, we found that local unemployment rates were consistently, strongly, and negatively associated with compliance. Given the volatility in unemployment rates during recent recessions and in the Great Recession in particular, these findings suggest the potential for a large-scale impact of macro-economic factors on the consistent provisions of child support.

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1. Introduction

Economic trends and policy changes since the early 1980s have created a particularly harsh climate for noncustodial parents (NCPs), most of whom are fathers. During (and shortly after) the twin recessions of the early 1980s, men began to experience larger increases in unemployment rates than women. The gender gap in unemployment rates has become larger with each successive recession (Sahin, Song, & Hobbijn, 2010). During the years bracketing the recent recession for example, annual unemployment rates for men over the age of 16 increased from 4.6% in 2006 to 10.5% in 2010 (a 128% increase), while the comparable increase in female unemployment rates was from 4.6% to 8.6% (an 87% increase) (U.S. Bureau of Labor Statistics, 2014a). What is more, improvements in the child support enforcement system required by several amendments to the Social Security Act since the early 1980s have exacerbated the consequences of economic downturns for noncustodial parents. These improvements culminated in the 1988 amendments that made immediate wage withholding mandatory for all child support orders initiated after January 1994. Since then, immediate wage

withholding has become the primary and most effective method for collecting child support (Sorensen & Hill, 2004). Unfortunately, immediate wage withholding can reduce disposable incomes of NCPs who experience declines in earnings (rather than unemployment spells) during economic downturns, because these NCPs continue having the full amount of their original child support orders withheld from their paychecks.

Bartfeld and Meyer (2003) showed that these changes had different effects on compliance among noncustodial parents with strong and weak attachments to the labor force. Among noncustodial parents with strong attachments to the labor force, changes in compliance became more strongly associated with the child support enforcement system and more weakly associated with individual preferences toward compliance. By contrast, individual preferences were more strongly predictive of compliance among noncustodial parents with weak attachments to the labor force who were affected little by variations in the child support enforcement system. Though enforcement and preferences for compliance were their main independent variables of interest, Bartfeld and Meyer (2003) also controlled for the local unemployment rate and demographic characteristics, which were proxies for father's earnings. They found that variations in unemployment rates played no significant role in explaining variation in compliance among either group. Other studies reached similar conclusions about the association

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between unemployment rates and compliance. However, few of these studies included recent time periods during which the national unemployment rate was very high, local unemployment rates varied widely, and the child support orders of most noncustodial parents were subject to immediate wage withholding. During such periods, the association between unemployment rates and child support compliance is likely to be stronger than the results estimated in previous studies.

Using data from the Current Population Survey–Child Support Supplement (CPS–CSS), this paper estimated the association between unemployment rates and child support compliance of noncustodial fathers between 1993 and 2011. Our estimates controlled for enforcement of child support orders by the IV-D program, marital vs. non-marital births, and demographic characteristics of custodial parents, which under the assumption of assortative mating, are good proxies for the earnings of noncustodial parents.

Our initial models found little evidence of a relationship between unemployment and the proportion of child support received, the probability that a mother received any payments, or the probability that a mother received all that was due in the full sample of custodial mothers. However, when we focused on a group of compliance outcomes related to non-pass-through child support payments, which are less likely to exhibit measurement error, there was a much more consistent relationship between unemployment and compliance. In particular, we found that a one percentage point increase in the lagged unemployment rate was associated with a marginally significant reduction ($p < 0.10$) in the probability that mothers reported receiving all non-pass-through child support payments and a significant reduction ($-0.006, p < 0.05$) in the probability that all non-pass-through payments were for the full amount. These results became even stronger and more consistent after we restricted the sample to cash assistance recipients in order to avoid selection bias, which could arise because some mothers are induced to seek child-support orders because of their own job separations and lost earnings during economic downturns. For example, we found that a one point increase in lagged unemployment rates was associated with a decrease of 0.014 in the probability that non pass-through payments to cash-assistance recipients were for the full amount. Given the volatility in unemployment rates during recent recessions and in the Great Recession in particular, these findings suggest the potential for a large-scale impact of macro-economic factors on the consistent provision of child support.

We organize the paper as follows. The next section reviews the literature on the determinants of child support compliance to see how non-custodial parents adjust their child support payments in response to economic downturns and what variables we must control for to obtain consistent estimates of associations between economic downturns and child support compliance. The third section describes the data and the methods we use to generate estimates of these associations. The fourth section presents our findings and the final section discusses their implications for future research and policy.

2. Theory and empirical evidence

Before reviewing the empirical evidence on the effects of unemployment on child support compliance, we first examine theoretical explanations of the determinants of child support compliance. Theoretical explanations emphasize three sets of factors that determine child support compliance: economic factors like unemployment, the main determinants of child support compliance; the aggressiveness or effectiveness of child support compliance enforcement measures, and non-economic factors (Beller & Graham, 1986).

2.1. Economic factors

Unemployment affects child support compliance through its effects on earnings, child support orders, and child support payments. These effects are illustrated in Fig. 1 by the arrows (pathways), which we

identify in the figure and the following discussion by their corresponding numbers in brackets []. In the figure, the positive and negative signs indicate the expected direction of the pathways between the variables in this system. For instance, when the unemployment rate rises, many NCPs experience declines in earnings [1]. The declines could result from a reduction in wages or hours of work at their current jobs or layoffs followed by new jobs at lower wages. Because of relationships among earnings, child support payments and child support orders, the reduction in earnings [1] can lead to two additional effects: a decrease in child support payments [2], which probably involves immediate non-compliance as NCPs are unable to meet the full amount of their child support obligations; and, an eventual downward modification of child support orders [3]. Because downward modification of child support orders takes time (Hatcher & Lieberman, 2003; Henry, 1999), a second round of reductions in child support payments [4] occurs once downward modifications of child support orders eventually take effect. However, this round occurs without further reductions in compliance. Instead, lower payments reflect the lower amount due on their modified child support orders, allowing NCPs to pay the reduced amount in full compliance with the new order.

Finally, unemployment might affect child support payments through the effect of unemployment on child support orders. Two possibilities arise here. Unemployment insurance claims typically rise when the unemployment rate is high. Once such claims are granted, fathers can petition for a downward modification of their existing child support orders [5]. If their petitions are granted, their child support orders will be lower and the payments will be automatically deducted from their unemployment insurance benefits. Because the amount paid is directly related to the size of the order, pathway [4] is positive. So, fathers come back into compliance, but their payments are lower than they were while employed. This effect will also likely occur with a lag.

The second possibility involves fathers who do not have orders. Unemployment may also result in job separations and lower earnings of mothers, driving some mothers to seek formal child support payments from fathers who are paying support informally, if at all. In these cases, the father will owe child support to the mother. Other mothers will be forced to seek public assistance (Council of Economic Advisers, 1997; Ziliak, Figlio, Davis, & Connolly, 2000). As a condition of receiving such assistance, mothers are required to sign over their rights to child support to the state, which in turn, seeks formal child support orders from fathers. In these cases, the father owes child support to the state, not to the mother. Mothers belonging to population groups with employment and earnings that are more sensitive to business cycles are attached to fathers who are equally vulnerable (Hoynes, Miller, & Schaller, 2012). Nevertheless, we can expect variations in the formal child support orders these fathers will face once they are brought into the formal child support system by the mother or the state.

Fathers brought into the child support enforcement system who owe child support to the mother will have lower ability to pay and lower child support orders than fathers who owed child support to mothers before the unemployment rate rose. This suggests that rising local unemployment rates are negatively associated with child support orders [5]. However, fathers brought into the child support enforcement system who owe child support to the state will have greater ability to pay (and higher child support orders) than fathers who owed child support to the state before the unemployment rate rose. This suggests that local rising unemployment rates are positively associated with child support orders [5]. Below we discuss how we examine the degree to which our results are sensitive to these opposing selection effects.

Since the association between unemployment and child support compliance is of primary interest to our study, a few preliminary comments are in order before we review the empirical literature. As Fig. 1 illustrates, the association between unemployment and child support compliance is embedded in a system of at least three pathways (structural equations) in which the outcomes are the three variables encircled

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