



The effect of child support on the labor supply of custodial mothers participating in TANF[☆]

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ABSTRACT

Child support is a critical source of income, especially for the growing proportion of children born to unmarried mothers. Current social policy supports custodial parent employment (e.g., the Earned Income Tax Credit [EITC] and other work supports have largely taken the place of an entitlement to cash assistance for single mothers of young children). Given many single mothers' limited earnings potential, child support from noncustodial fathers is also important. This raises questions about the effects of child support on custodial mothers' labor supply, and whether policies that increase child support receipt will thereby discourage mothers' employment. This paper addresses these questions, taking advantage of data from a statewide randomized experiment conducted in Wisconsin. Unlike previous nonexperimental research, we do not find any negative effect of child support on the likelihood to work for pay or the number of hours worked in a given week. Recent U.S. social welfare policies have focused on increasing both custodial mothers' child support collections and their labor supply. The results suggest that these may be compatible policies; the absence of a negative labor supply effect strengthens the potential antipoverty effectiveness of child support.

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1. Introduction

Custodial-parent families (i.e., families in which the child lives with only one biological parent, including those in which the child lives with a parent and stepparent) in the United States are disproportionately poor relative to two-parent families. The incidence of poverty is particularly high if custodial-parent families are female headed. In 2012, the poverty rate for custodial-mother families was more than four times (40.9%) that of two-parent families (8.9%), and almost twice the poverty rate observed among custodial-father families (22.6%) (United States Census Bureau, 2013).

Because cash assistance has declined dramatically in the last decade, and receipt of child support (i.e., monetary transfers from parents who do not live with their children) is generally small (Cancian, Meyer, & Park, 2003) and irregular (Cancian & Meyer,

2005; Ha, Cancian, & Meyer, 2011; Nepomnyaschy & Garfinkel, 2010) among low-income families, custodial-parents' earnings are instrumental for reducing income poverty among these families. Moreover, as the overarching principle of the U.S. child support system is that both parents have financial responsibility for their biological children (Cancian, Meyer, & Han, 2011; Meyer, 2012), there is an expectation that noncustodial-parent contributions will complement custodial-parent earnings.

Yet, custodial parents' decision to work may differ depending on whether they receive child support. In fact, microeconomic theory suggests that nonlabor income such as child support unambiguously reduces the labor supply of the recipient (e.g., decision to work at all, and the number of hours worked). That is, assuming leisure is a normal good, such that when income increases the demand for leisure will rise, additional income provided by the noncustodial parent will lead the custodial parent to work fewer hours (Killingsworth & Heckman, 1986). Yet, this prediction may not hold in all populations. For instance, child support income may enable low-income, credit-constrained, custodial parents to increase their labor supply by providing resources to overcome limitations to work for pay (e.g., lack of resources to pay for child care, commute to work, or receive job training to improve their employability). Hence, child support may not necessarily reduce custodial parent's labor supply, as predicted by standard microeconomic theory.

The vast majority of previous studies suggest that child support has a small, negative effect on the labor supply of custodial mothers (Graham, 1990; Graham & Beller, 1989; Hu, 1999). However, this research was

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mostly focused on non-welfare populations¹ and findings may not necessarily reflect the behavioral response of low-income custodial mothers after welfare reform. Moreover, the endogeneity between child support receipt and mothers' labor supply was not fully addressed in this literature. This is a major limitation because unobserved characteristics of custodial mothers may simultaneously affect their child support receipt and participation in the labor market. For instance, mothers who are more motivated or better self-advocates may be more likely to engage in the process of pursuing a child support order and also more likely to be active in the labor market. Motivation, self-advocacy, and other unobserved characteristics that affect child support receipt and labor outcomes may lead to biased estimates of the effects of child support on the labor supply of custodial mothers.

The purpose of this paper is to examine the effect of child support on the labor supply of welfare populations and to determine the extent to which policies that aim to increase child support collections and those that aim to increase custodial mothers' employment are working against each other. Specific aims are to determine: (1) the extent to which child support receipt reduces the likelihood of working for pay among custodial mothers participating in the Temporary Assistance for Needy Families (TANF) program; and (2) the extent to which child support receipt reduces hours worked among custodial mothers participating in TANF.

Data for these analyses come from the Wisconsin Child Support Demonstration Evaluation (CSDE), which uses an experimental design to evaluate the effects of a full pass-through policy of child support on custodial-mother families participating in TANF. The full pass-through policy allowed custodial mothers to receive all child support paid on behalf of their children. Further, the state disregarded child support income for purposes of calculating TANF benefit amounts.² Because participants in the experiment were randomly assigned to one of two pass-through eligibility statuses – receive full amount of child support or not – the CSDE data provide a unique opportunity to estimate the effects of child support by eliminating the bias introduced by self-selection into child support receipt.

The CSDE experimental analyses showed that fathers in the experimental group were more likely to pay child support and to pay larger amounts of support than fathers in the control group. The evaluation also showed that mothers in the experimental group received more support than mothers in the control group; for the population of custodial mothers participating in W-2 during the evaluation, the differences in the average annual amount of child support received were \$142 in 1998 and \$123 in 1999 (among all mothers) and \$482 in 1998 and \$300 in 1999 (among mothers with a pre-participation higher child support history). Among mothers included in the survey, the differences were \$92 in 1998 and \$125 in 1999 (among all mothers) and \$396 in 1998 and \$421 in 1999 (among mothers with a pre-participation higher child support history). While the effect of the experiment was fairly small among all mothers, the difference between experimental and control groups was statistically significant and represented an increase of 28% in 1998 and 17% in 1999 in the average amount received by mothers in the control group (Meyer & Cancian, 2001).

Our study extends previous research by taking advantage of the CSDE's random assignment design to explicitly address the endogeneity between child support receipt and custodial mothers' labor supply. We also examine this relationship among a population that has been particularly affected by changes in social welfare policies. At the very least, results from this study may have implications for the child support

system. If efforts to increase noncustodial fathers' contributions negatively affect custodial mothers' employment, enforcement policies may be unintentionally discouraging custodial mothers' participation in the labor market. As major reforms have been focused on both increasing custodial mothers' labor supply and child support collections (the 1984 and 1988 amendments to the Social Security Act, and the 1996 Personal Responsibility and Work Opportunity Reconciliation Act [PRWORA]), ignoring the potential effect of child support income on labor supply may reduce the effectiveness of these policies. Alternatively, child support may increase family income without affecting custodial mothers' labor supply.

The remainder of this paper proceeds as follows. Section 2 describes the policy context in which the CSDE took place. Section 3 discusses main findings from previous research in this area. Section 4 describes the data, sample, key measures, and methodological approach. Section 5 presents the results. Section 6 concludes with a discussion of findings in the context of current policy and limitations of the study.

2. Policy context

With the enactment of welfare reform (PRWORA), the United States moved forward with a substantially different approach to assisting low-income families with children. The overarching purpose of PRWORA is to promote self-sufficiency by conditioning cash assistance on parents' participation in the labor market. Hence, participants in the program known nationwide as Temporary Assistance for Needy Families (TANF), are expected to work for pay or meet related program requirements. The Wisconsin TANF program, called W-2, attempts to recreate some features of the job market (cash assistance that does not vary with family size, amount received depends on hours of work) in order to promote employment among participants.

The Wisconsin TANF program included a unique approach to child support for families receiving cash assistance: most custodial mothers in the original W-2 program were allowed to receive all child support paid on behalf of their children and child support income was ignored in the determination of TANF eligibility. This policy was consistent with the W-2 emphasis on replicating the job market. Just as workers' wages are not affected if they receive child support, neither would W-2 cash payments be affected by child support receipt. This policy contrasted with prior Aid to Families with Dependent Children (AFDC) pass-through policy, which allowed for a maximum \$50 child support pass-through and disregard in determining AFDC cash benefits. It was also more generous than the TANF rules adopted by other states, most of which retained the \$50 pass-through and disregard, or eliminated it completely.³ As a condition for the waiver required in order for Wisconsin to implement the full pass-through and disregard, the federal government required an experimental evaluation of the policy.

Wisconsin's approach, and the required evaluation, provided the opportunity to evaluate the effects of child support on a host of individual and family outcomes. In the fall of 1997, both recipients of AFDC transitioning to TANF and new applicants to TANF were randomly assigned to one of two pass-through eligibility statuses. Participants in the experimental group received the full amount of child support paid by the noncustodial parent, while participants in the control group received a partial pass-through of the first \$50 per month, or 41% of the amount paid, whichever was larger. All participants in TANF were placed in one of four tiers of employment: (1) transition, which is provided for those having a disability that limits their capacity to work for pay or who need to care for a child with a disability (work activities for which participants received \$628 per month); (2) community service jobs (public service jobs funded by the state for which participants received \$673 per month); (3) trial jobs (to provide work experience in jobs partially subsidized by the state; participants should be paid at least

¹ One study examines the effects of child support reforms on female labor supply and welfare dependency before the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA).

² When implemented, these measures were particularly exceptional since custodial parents in most other states received none of the child support paid on behalf of their children, and those states with any pass-through generally limited it to a maximum of \$50 per month. Under current policy, many states still do not distribute most child support to families receiving TANF benefits.

³ From the Urban Institute Welfare Rules Database, available at <http://anfdata.urban.org/wrd/WRDWelcome.CFM>.

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