



# Parental responses to child support obligations: Evidence from administrative data<sup>☆</sup>

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## ABSTRACT

We study parental responses to child support obligations using rich administrative data from Denmark and variation in the child support formula. We estimate that a 1000 DKK (\$160) increase in a father's obligation is associated with a 273 DKK (\$45) increase in his payment. A higher obligation reduces father-child co-residence, pointing to substitution between financial and non-pecuniary investments. Further, obligations increase post-separation fertility among remarried fathers, but have no impacts on maternal fertility or either parent's labor supply. Our findings suggest that government efforts to increase child investments through mandates on parents can be complicated by their behavioral responses to them.

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## 1. Introduction

Most modern governments engage in redistributive policies, whereby income is transferred from individuals who are taxed to individuals who receive benefits. The implicit “donors” and “recipients” under these policies usually do not have any direct connection, and a large body of research has examined the behavioral responses of these two groups *separately*. For instance, the literature on the elasticity of taxable income examines the behavior of donors, while studies on fertility and labor supply effects of welfare programs focus on the actions of the recipients.<sup>1</sup>

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<sup>1</sup> For surveys of research on the elasticity of taxable income, see Gruber and Saez (2002), Saez et al. (2012), and Piketty and Saez (2013). For surveys of research on behavioral responses to welfare programs see Hoynes (1997), Moffitt (1998), Schoeni and Blank (2000), and Moffitt (2002).

As a result of the sharp increase in the proportion of children growing up in single-parent households, a different type of redistributive policy has evolved in the last several decades. In the hopes of improving these children's financial circumstances and shifting the burden of their support away from traditional welfare programs, governments mandate child support payments from non-custodial parents to the custodial parents and their children.<sup>2</sup> Under this redistributive policy, the donors (typically, fathers) have a clear connection to the recipients (typically, mothers and children). Thus, its impacts depend on both the recipients' and the donors' preferences and constraints, as well as their interactions with one another.

This paper uses rich administrative data from Denmark to estimate the effects of child support obligations on a range of parental behaviors, thus studying responses among both donors and recipients. Our empirical analysis is motivated by existing theoretical models that highlight the intertwined nature of parental incentives and the complexity of their potential responses to child support obligations (see, e.g.: Weiss and Willis, 1985; Willis, 1999; Flinn, 2000). These models demonstrate that child support obligations do not resolve the underlying collective-goods problem among separated parents, as custodial parents have full allocative power over how to spend the non-custodial parents' payments. As a consequence, non-custodial parents may view their obligations as taxes, which may not necessarily benefit their children. Moreover, when the child support obligation is linked to the physical custody arrangement (e.g., if the obligation is different depending on whether the parents share custody), it may affect parental decisions about child custody, as well as other voluntary and non-pecuniary investments and contact with children. These decisions may in turn have downstream effects on other parental behaviors, including family formation with new partners and labor market activities.

The current evidence on the causal effects of child support obligations is limited, largely due to two significant challenges. First, researchers face a substantial data constraint, especially in the United States, where most of the existing work has been set (see Garfinkel et al., 1998; Del Boca, 2003; Lerman and Sorenson, 2003; Pirog and Ziol-Guest, 2006; Cancian et al., 2011; Huang and Han, 2012 for some surveys). As most U.S. data sets contain information on individuals in the same household, it is impossible to link children to their non-custodial parents.<sup>3</sup> Second, as child support obligations are not randomly assigned, it is difficult to disentangle their impacts from the possible influences of other (unobservable) differences between families.

We address the first challenge by using administrative data on the universe of Danish children, who are linked to their parents regardless of residence status. These data are uniquely suited for studying parental responses to child support obligations because they contain information on fathers' payments, fathers' co-residence with their

children, as well as both parents' post-separation family formation and labor market behavior.<sup>4</sup>

To tackle the issue of identification, we exploit the structure of the Danish child support formula, which is set by a central agency. The formula is a step function of the father's income, and this function varies by the father's number of children and the year of separation. Fig. 1 displays the child support formula graphically by plotting the annual child support obligation in year 2000 DKK for parents with one and two children in sub-figures (a) and (b), respectively. We use a simulated instrumental variables (SIV) approach inspired by Dahl and Lochner (2012) and Chetty et al. (2011) in their studies of the U.S. Earned Income Tax Credit (EITC):<sup>5</sup> In our setting, we assign each separated father his separation year obligation using information on his income and number of children *only in the separation year*, and then use this obligation to instrument for his average annual obligation over all observed years post-separation, while flexibly controlling for the main effects and double interactions of income, number of children, and year of separation in a type of "triple-difference" model.

Causal identification relies on the assumption that the remaining (formula-driven) variation in separation year obligations is orthogonal to other determinants of parental behaviors. To make this assumption more plausible and assuage concerns about unobservable differences across fathers driving our results, we constrain our analysis sample to fathers with separation year incomes between 270,000 (\$42,775) and 405,000 DKK (\$64,165) in real year 2000 terms. In addition to making fathers more comparable on income (and potentially other unobserved characteristics), this restriction focuses our analysis on the range of the child support function that displays the most variation (see Fig. 1). Further, we show that: (i) the variation in separation year obligations is uncorrelated with other parental separation year characteristics that are not used to set obligations (such as each parent's education and age, and maternal income); (ii) there is no evidence of strategic sorting around the first threshold in the child support formula; and (iii) separation year obligations are uncorrelated with fathers' pre-separation labor supply behavior.

Another important possible violation of our identifying assumption is that child support obligations may affect the likelihood of parental divorce or separation, thus leading to selection into our primary analysis sample (see Brown and Flinn, 2011; Chiappori et al., 2015 for detailed discussions of these issues). However, we find that in our data, (anticipated) child support obligations are uncorrelated with the share of parents who divorce, separate, or have an out-of-wedlock/cohabitation birth in any given year.

Our empirical results point to some parental behavioral responses to child support obligations. We show that, although obligations are positively correlated with payments, the relationship is not one-to-one. We find that a 1000 DKK (\$160) increase in a father's average annual child support obligation is associated with a 273 DKK (\$43) increase in his average annual payment that we observe. The three

<sup>2</sup> In the U.S., 9% of children under age 18 lived with only one biological parent in the household in 1960, while over 26% do today. Many Western European countries currently have similar rates—for example, about 22% of British children, 18% of Danish children, and 15% of German children live with only one parent. Children in single-mother households are disproportionately low-income. In the U.S., children in single-mother households are twice as likely to live in poverty relative to the average child. In Denmark (the setting for this paper), children in single-mother households are three times more likely to live in poverty relative to the average child. Data for U.S. are from the 1960 Decennial Census and the 2013 Current Population Survey. Data for the European countries are from EU Community Statistics on Income and Living Conditions, 2007. For more information on child poverty rates in Europe, see: [http://www.unicef-irc.org/publications/pdf/rc10\\_eng.pdf](http://www.unicef-irc.org/publications/pdf/rc10_eng.pdf).

<sup>3</sup> Additionally, much of the existing literature uses survey data with self-reported income, which is missing or inaccurate for a significant fraction of respondents (Weinberg, 2006). Since child support obligations are largely determined by parental income, it is difficult to match non-custodial parents to their obligations in such data sets.

<sup>4</sup> We mainly study the effects of fathers' obligations because they are much more likely than mothers to be the non-custodial parent. According to Statistics Denmark, in 2010, about 26% of children lived with only one biological parent (and potentially their new partners). Of them, 23% lived with only their mothers, while 3% lived with only their fathers. While we observe information on whether the father lives with his child post-separation, we purposely do not drop these fathers since we show that residence with the child is an outcome that can be affected by the child support obligation.

<sup>5</sup> They use a similar type of variation, as expansions in the EITC have differentially impacted families with different incomes and numbers of children. For other recent examples of the SIV approach, see: (i) Milligan and Stabile (2011), who analyze the effects of Canadian tax benefits on child outcomes, and (ii) Brown et al. (2014), who study the long-term effects of Medicaid coverage on adult outcomes. This method is also motivated by the earlier work of Currie and Gruber (1996), who analyze the effects of Medicaid on infant health. Finally, the idea of using non-linearities in benefit or tax schedules to separately identify them from effects of income goes back to an older literature on tax evasion and tax prices (Slemrod, 1985; Feenberg, 1987).

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