

Reducing Family Poverty: Tax-Based and Child Support Strategies

The Policy Institute for Family Impact Seminars



**Family
Impact
Seminar**

Reducing Family Poverty: Tax-Based and Child Support Strategies

December 4, 1992, Mansfield Room, U.S. Capitol, Rm. S. 207

Panelists: **Eugene Steuerle, Ph.D.**, senior fellow, Urban Institute
Cheryl Hayes, executive director, National Commission on Children
Daniel Meyer, Ph.D., assistant professor, School of Social Work, University
of Wisconsin-Madison, and affiliate of the Institute for Research on Poverty
Wendell Primus, Ph.D., staff director, Subcommittee on Human Resources,
House Ways and Means Committee

Moderator: **Theodora Ooms**, director, Family Impact Seminar

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By

Theodora Ooms

and

Jennifer Weinreb

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Reducing Family Poverty: Tax-Based and Child Support Strategies

Highlights of the seminar meeting held on December 4, 1992, in S. 207, the Mansfield Room, U.S. Capitol. (A supplement to the background briefing report.)

Theodora Ooms opened the meeting by noting that this was the third seminar in a series of four on strategies to reduce family poverty. It would focus on ways to increase the income of poor families, including several new tax-based and child support proposals which are attracting a great deal of interest from policymakers, including the newly elected President Clinton. She added that they were very fortunate to have as panelists today four people, each of whom has played a part in the development of these proposals.

The first panelist, **Eugene Steuerle**, an economist, is a senior fellow at the Urban Institute, and had previously worked in the Treasury Department in several positions, including Deputy Assistant Secretary for Tax Analysis. He was asked to talk about the treatment of families in the tax code and how this had led to the development of current proposals for the refundable tax credit and earned income tax credits.

Steuerle said that while debates about family policy often are divided on conservative and liberal grounds, many issues of family income policy are not conservative/liberal issues. Rather, they are simply legitimate analytical issues concerning the equity and efficiency of our tax and welfare systems. How do we want to make adjustments in our tax and transfer system to account for the presence of children---in both poor and nonpoor families?

He began by stating **three central concerns** that shaped his thinking about how to change the current systems.

First, public policy pays too little attention to the need to invest in children. He did not plan to speak much to this issue since others had done so at length, for example, the National Commission on Children. However, he wanted to underscore that investing in children is one of the most efficient ways we have of encouraging long-term growth in our economy.

Shift of tax burden onto shoulders of families with children. On the second point---the tax code's treatment of children in recent decades---the value of personal, and especially dependent exemptions, has fallen markedly related to income (see Figure 1). Households with children have less and less of a percentage of their income offset by dependent exemptions, and as a consequence pay more and more taxes. The tax burden has thus been shifting disproportionately to families with children, despite an increase in 1986 to a \$2,000 exemption. (The slight bump shown in Figure 1 was a result of the Tax Reform Act of 1986 when the personal exemption was increased to \$2,000, primarily to try to reduce numbers of poor on the tax rolls.)

There are a number of problems with the official poverty measure (see Ruggles, 1990). The poverty measure is adjusted over time by increases in inflation (i.e., is indexed only for inflation)

and, as long as we have real income growth in the economy, it also means our relative measure of poverty keeps going down over time. Thus, by the way we measure, over time we eventually exclude more and more people who are full-time, low-wage workers from being counted as poor. Referring to Figure 2, Steuerle said he converted the value of the dependent exemption into a dollar figure, a tax credit equivalent. In 1990, it was worth about \$308. If we had kept the dependent exemption worth what it was in 1948, it would have been worth nearly \$1,300 in 1990, and about \$1,500 today. Thus, if the National Commission's proposal for a refundable \$1,000 tax credit per child were enacted---a credit which he recommended to them as an advisor---it would still be worth less than if we had kept the dependent exemption at the 1948 real value. (However, the dependent exemption does not benefit those who don't pay taxes.)

Tax adjustment for family size. How much should taxes be adjusted for the presence of children? At one level, this raises some issues about how much we should be transferring large sums of money across income classes. However, Steuerle said many economists feel this is a legitimate question for another reason as well: the principle of "horizontal equity" stresses the importance of treating taxpayers equally, not based solely on income, but on ability to pay. If two families have \$50,000 of income, but one has four children and the other has none, should they pay the same tax? Or do they have different abilities to pay? While the same amount of taxes could be collected from all families combined, the tax burden in his view should be relevant to family circumstances. For this reason, he thinks that a \$1,000 tax credit to adjust for the presence of children is a reasonable measure.

Tax and welfare disincentives. Third, most people who move out of poverty do so in one or a combination of three ways: mobility, work, and marriage. Steuerle asserted that current tax and welfare systems present enormous disincentives to all three.

- **Mobility.** Poor people often want to move in order to get a better job, reduce housing costs, gain family support, etc. However, it takes time for a person to learn the workings of a welfare program. If a person acquires knowledge about how to qualify in a particular jurisdiction for various welfare benefits and then wants or needs to move for a better job, from DC to Alexandria for example, she could face a number of significant hurdles: the loss of public housing or child care, and she might be required to completely reapply for benefits she had previously been receiving. Ironically, Steuerle pointed out, so much of our population has improved its situation as a result of mobility, and yet the impediments to it are tremendous.
- **Work.** There are enormous disincentives for the poor to work. In Figure 3, Steuerle and Juffras calculate how the status of a single woman on welfare with two children would barely improve if she acquired either a minimum or moderate wage job. The net gain from leaving welfare for a minimum wage job would be \$590 dollars. This figure uses a conservative set of welfare assumptions. If you added more reasonable transportation and child care costs, the net gain would be closer to zero. Even at a moderate wage, the incentive to work is minimal. For these reasons, there is also no incentive to report income earnings, creating what Steuerle described as an "atmosphere of disrespect for the law."
- **Marriage.** Steuerle described the marriage penalty embedded in a system which says if your income goes up we'll move you out of welfare. However, it also implies that if you marry, we'll also move you out of the welfare system. The marriage penalty chart (Figure 4) shows what happens if a welfare recipient, say with two children, finds someone who is a minimum wage worker whom she wants to marry. If they do marry, the way welfare programs and the tax law are structured, it means that their combined income will decrease by 30%. If she were to marry a moderate income worker, their combined income would be reduced by 17%. A system saying "don't marry or we'll penalize you," again, encourages disrespect of the law, Steuerle said.

Technically, if one wants to maintain a high phase out rate as income rises (in welfare or the Earned Income Tax Credit), you really cannot avoid these marriage penalties, Steuerle explained. This is one more reason for a universally based \$1,000 credit: The credit would also apply to middle income levels and would start to eliminate these penalties because it is not income conditioned, but depends on presence of children.

Steuerle pointed out that Figure 5 shows the effective marginal tax rate applying to a low-income, single-parent family (taking into account all taxes, credits, and benefits). As soon as you move above \$3,000-\$4,000 of income, the tax rate is over 100%. (And this is in a society where many middle-and upper-income families believe that paying a 30% marginal tax rate creates strong disincentives.)

Cheryl Hayes, the second panelist, was the executive director of the National Commission on Children and previously the executive director of the Child Development and Public Policy Committee of the National Academy of Sciences. She spoke primarily about the Commission's recommendations, which were released in the report, *"Beyond Rhetoric: A New American Agenda for Children and Families,"* in June 1991. Among the Commission's comprehensive set of recommendations, five are geared towards improving income security for families raising children. The Commission's most radical and costly recommendation, and the core of the Family Income Security Act, is the \$1,000 refundable child tax credit.

Hayes began by emphasizing that while this is the most far-reaching recommendation, it is important to the entire income security packet and to address how it fits into the Commission's recommendations as a whole. The recommendations presented a "broad framework and bold blueprint for a comprehensive national policy for children and families."

Within the income security domain, there were five major proposals set forth by the Commission:

- (i) Enactment of a \$1,000 refundable child tax credit accompanied by the elimination of the current personal exemption to partially offset the cost.
- (ii) Further expansion of the Earned Income Tax Credit (EITC) to make work pay.
- (iii) A child support enforcement and assurance system which would begin with demonstration projects to assess the proposal of a guaranteed minimum support payment to families who otherwise would receive no support.
- (iv) Endorsement of additional transitional support services to help families who are willing to move from "welfare to work."
- (v) While the Commission didn't suggest new federal JOBS programs, it advocated waivers for communities to tap into existing education and training programs to create additional community employment possibilities.

The Commission's recommendations, if enacted, implied that the welfare system would once again become become a transitional support system and safety net for those experiencing severe, temporary economic hardship. While the Commission didn't seek to impose time limits on benefits, it believes that the welfare system should be scaled down to provide adequate, temporary services as opposed to indefinite, but inadequate support for poor families as it now does.

These provisions were introduced by Senator Rockefeller (D-WV) in February 1992 as part of the Family Income Security Act.

Child Tax Credit Proposal. The recommended \$1,000 refundable tax credit would apply to all children under 18 years old. The personal exemption would be eliminated for children and retained for adults. Hayes emphasized that the two main features of the credit are that it is **universal and refundable**. It would ensure a basic level of income support for all children regardless of their parents' work status or income level.

- For working parents who earn enough to pay taxes, it would represent a tax cut.
- For working parents who don't earn enough to pay much, if any, taxes, it would be a cash payment.
- For unemployed parents, it would provide a basic level of support without stigma and without disincentives to work. It would not be used as an offset to welfare benefits and wouldn't be counted as income for eligibility for means-tested programs.

All families would be better off with this credit than they are with the \$2,150 personal exemption currently in place. The credit would be worth anywhere from 1.5 to 3 times the value of the exemption and would clearly be a net \$1,000 cash gain for those who are too poor to pay taxes.

Hayes emphasized the distinction between a refundable child tax credit and the current exemption. The current exemption is of greater value to families as their earnings increase. Its greatest benefit is to families earning more than \$50,000 a year. If you don't earn enough to be taxed, you do not currently receive the benefit of the exemption. If the proposed credit were not refundable, it is estimated that 25-28% of families with children would not be eligible to receive it. She said this proposal makes a "fundamentally important statement about this nation's values. All children should be valued equally, whether from rich or poor families. And it recognizes that raising children is a socially significant and increasingly expensive responsibility."

Hayes addressed the question about whether this proposal was really only a form of middle class tax relief. The answer is yes, and no. The Commission clearly intended it to offset the increasing tax burden on middle-income families. In 1960, the average American family spent about 14% of its gross income on taxes, today it is about 25%. But the credit was also intended to make all families raising children better off.

However, it is not like several of the middle-income tax relief proposals introduced in the 102nd Congress. The Commission does not see the tax credit as a quick fix to an ailing economy, but as one crucial "component of a comprehensive income security policy to reduce child poverty in a way that values and rewards work and acknowledges society's stake in the health and well-being of all children and in the ability of families to raise healthy children." The tax credit and the Commission's other recommendations address long-term economic trends that have left families with children more vulnerable.

The Commission has calculated that the combination of the refundable child tax credit, an expanded EITC, minimum wage jobs, and minimum, guaranteed child support payments would lift the majority of low-income families out of poverty. The Commission's goal was to create a uniform and consistent set of expectations and incentives for all families, in terms of opportunity and responsibility, not to have one set for low-income families and another for middle- and upper-income families.

Cost of the proposal. The refundable child tax credit was certainly the single most costly item in the Commission's package. The cost of the new credit is a net estimated \$40 billion per year for the nation's 65 million children in this country, including elimination of the current personal exception which would offset the gross cost by about \$25 billion. Hayes concluded that the Commission believed this major reform was needed, adjusting our welfare system is not enough to address the issue of child and family poverty.

Daniel Meyer is an assistant professor at the School of Social Work, University of Wisconsin-Madison, and an affiliate of the Institute for Research on Poverty. Meyer spoke about the research basis for the new child support assurance program proposal and its anticipated effects if adopted nationally.

It is important to remember that the current child support system is in a time of transition. Meyer pointed out that the Family Support Act of 1988 had a number of provisions which were to be implemented gradually. "We have not yet seen what changes will result," he said.

As an overview of the child support system, Meyer listed four steps that are needed before the system can have an impact on parents' income.

- (i) Paternity needs to be (legally) established.
- (ii) A child support award needs to be set.
- (iii) The award needs to be kept current.
- (iv) The award needs to be collected.

Current performance of the child support system. How is the system doing on accomplishing these steps? Unfortunately, the Census Bureau's figures on paternity establishment are very incomplete, but a guess is that only 30% of never-married women with children have established paternity for their children. About 85-90% of custodial parents are the mothers. Of these mothers, about 50% of demographically eligible women have support orders. (There are no national data available on awards for custodial fathers.) Approximately 75% of custodial parents with awards receive some support payment, the average yearly amount being about \$2,300. Of those, 50% receive the full amount, and 25%, something less than the full amount according to 1989 figures. But these figures are for all women. Fewer than 40% of poor women have child support awards. Currently, child support enables about 5% of the women who were poor before they received child support to leave poverty and it decreases the poverty gap by about 9%.

Forty percent of these pre-child support poor women have a child support award. And about three-quarters of them receive something, an average amount of \$2,300, which is substantial.

Meyer addressed the recurring question of the effects of child support payments collection on noncustodial parents (mostly fathers), and whether in many cases we aren't simply reshuffling poverty? Studies suggest, however, that noncustodial parents actually are financially better off, even after paying child support, than they were before separating from the child and the other parent (Lewin/ICF, 1990). The general story is that after an intact family splits, the custodial family's income falls and the noncustodial parent's income rises.

The potential impact of an improved child support system. What would the impact be if all support payments due were collected? Meyer suggested that even if collection of current awards were 100%, the improvement in poverty would not be so great. The single biggest problem, he says, is the lack of paternity establishment followed, by the lack of pursuing support orders after paternity has been established. But even if paternity were established, awards ordered, and amounts collected, it is unlikely that these factors alone would have a major impact on poverty. Other measures are needed at the same time to have large effects.

Child Support Assurance Minimum Benefit Assurance. What would happen if we implemented the proposed minimal child support benefit of \$2,000, as being proposed? Meyer and other members of the Wisconsin research group have done some simulations and learned that a significantly tightened support system could yield enough savings to offset much of the cost of the assurance benefit itself. For families who remain on AFDC, increased collection would translate dollar for dollar to other savings for the assured benefit system. If collections could be increased

from 11 billion to 19 or 20 billion, a child support assurance benefit could be funded and this also would decrease the poverty gap by another 5%.

There is very little data available on these issues, especially data that matches the experience of the custodial with the noncustodial parent. There are many other research gaps too, including: a) We know very little about paternity establishment, although various experiments are underway. b) We know little about the effects of child support on broader measures of child well-being. c) The effects of an assured benefit need to be tested. d) Current policies require custodial fathers to provide health coverage to their children in addition to support payments, but we know little about whether that is occurring and its effects. In general, studies have been cross-sectional and we need to know more about a variety of child support issues over time.

The fourth and final panelist was **Wendell Primus**, at the time, chief economist and staff director of the Subcommittee on Human Resources of the House Committee on Ways and Means, and now the Deputy Assistant Secretary for Human Services Policy at the Department of Health and Human Services. Ooms pointed out that Primus is the primary author of the Committee's famous Green Book---the bible for so many poverty analysts.

Primus began by saying that Congressmen Tom Downey (D-NY) and Henry Hyde (R-IL) began drafting the Downey/Hyde Child Support Enforcement and Assurance proposal well over a year ago and have been gathering comments on it widely. It has not yet been introduced as legislation, and although Downey was not reelected, he has been assured that the new Acting Subcommittee Chairman, Robert Matsui (D-CA), is very excited about the proposal. It will undoubtedly undergo some changes, but the Subcommittee plans to go forward with the proposal at some point in the 103rd Congress. Primus also shared his expectation that the Clinton Administration will pay serious attention to the proposal as the new welfare reform initiative is developed.

Primus mentioned that he was initially a skeptic of the assurance benefit. His view used to be that if you improved welfare, made work pay, and changed the earnings disregard, you could improve the incomes of the noncustodial parents sufficiently. He no longer believes this is true. Central to Primus' comments was his statement that while our society places tremendous value on work, family, and the responsibilities that accompany them, the current welfare system, as Steuerle points out, discourages all of these. In addition, the current system places a disproportionate share of the responsibility for parenting and work on females vis-a-vis males.

According to Primus, child support assurance is absolutely essential to meeting the goals of the child support system, and would also help to instill some of the values we claim to uphold, such as work, self-sufficiency, and parental responsibility. Without assurance, Primus says, the other components of the support system will not be as effective. Primus then reviewed the key components of the Downey-Hyde Child Support Assurance proposal (see p. 28).

Paternity establishment for all children. The first component of the proposal, and a key to the assurance system itself, is a reliable process for paternity establishment. Primus estimates that there are at least half a million children in the U.S. for whom paternity has not been legally established. Those children's fathers are most likely not providing support to the child and to the custodial mother. This in turn means that none of the social insurance systems are accessible to those children, such as health insurance from the father's employer and disability and survivor benefits among others.

Before paternity establishment will be effective, it is necessary to convince mothers of the positive impact it is likely to have in order to get their cooperation in naming and locating the father. Paternity establishment should be voluntary and nonadversarial, and accomplished through an administrative process. And, importantly, child support and paternity establishment should have

nothing to do with the welfare system, but should be universal and automatic for every child (which is currently not the case).

Convincing a custodial mother of the benefits to establishing paternity can be difficult, particularly in cases where the noncustodial parent is trying to convince her otherwise by promising to provide her and the child with more support than would be called for under an award order. It is crucial therefore to convince custodial parents that establishing paternity will lead to improved conditions for them, and according to Primus, the key to this is the assured benefit. (The noncustodial parent only gets the benefit if she cooperates with establishing paternity.)

Establishment of child support orders. The second component of the Downey/Hyde Child Support Enforcement and Assurance proposal would establish all child support orders according to uniform, national guidelines. Under the current system, awards for children in similar situations may vary widely depending on the state where the order was awarded and the guideline that was applied. Orders are rarely reviewed and updated over time, if at all. Under the proposal, initial orders would be established at the state level, subject to federal review and modification. Orders would be modified regularly (every two or three years) based upon information from federal income tax returns.

Collection and enforcement of child support orders. The third component is the development of a single, national, central registry which would register all child support orders and maintain a record of all payments. The federal government would assume responsibility from states and localities for the collection, disbursement, and enforcement of child support payments. This would result in significant economies of scale and increased efficiency, particularly in interstate cases. A federal system would also improve the results obtained from automatic wage withholding---the primary tool for collecting child support obligations.

The Downey-Hyde proposal (as well as an earlier Bush proposal) recommends that outstanding child support payments be collected through the Internal Revenue Service, in a manner similar to that of collecting federal income tax. It is significant that in Downey-Hyde, unmet child support obligations take precedence over taxes. For example, if a father had paid \$2,000 in federal income taxes and had that amount or more outstanding from a support order, the IRS would pay the \$2,000 to the awardee and then attempt to collect the amount owed in taxes from the noncustodial parent. In other words, the IRS would pursue the support obligation first, followed by the tax liability.

While ensuring cash support awards is clearly the top priority within the child support system, Downey-Hyde also calls for the enforcement of medical support. It should be automatically required that noncustodial parents must include their noncustodial children in their health plans, and employers' health plans should not be allowed to discriminate between custodial and noncustodial children.

JOBS requirements and opportunities for the noncustodial parent. The fourth component is the modification and expansion of the JOBS program to accommodate participation by noncustodial parents who have failed to, or are unable to, pay child support. Primus pointed out that the current system is quite sexist, for it unequally distributes parental responsibility between the custodial and noncustodial parents. "Whatever we expect the mother to do, we should also expect the father to do. We should consider making the same requirements upon, and providing the same opportunities for, the noncustodial father as for the custodial mother on welfare." This would mean opening up the AFDC JOBS program to noncustodial parents and placing the same expectations on them as we place on the custodial parent.

While the father should be responsible for as much of the support of the child as the mother, he should also have the same opportunity as the mother to enroll in JOBS and similar programs. This

measure agrees, in his view, with the campaign rhetoric of President Clinton to "end welfare as we know it" and stands a good chance of being adopted in some form by the new administration.

Finally, the proposal is designed to be fair to the intact family. The AFDC-UP program, although now active in every state, still includes a number of barriers. This proposal would eliminate these barriers---such as the "100 hour rule exclusion" and work history requirements---and give the intact family the first crack at any public service employment opportunities that are also part of the proposal.

Assured child support benefit. The final major component is the assured benefit. Primus explained that this idea is still in development, and that a precise figure for what the amount of assurance should be per child has not yet been determined. One possibility is to assure a benefit of \$2,000 for one child, \$3,000 for two children, \$3,500 for three children, and so on.

Subsidized support payments are also being considered to address the hardship which a low-income father may experience if he is already making some payment, but is financially unable to pay the full amount. This could be accomplished by the government guaranteeing the full amount of the award for a certain amount of time, and paying it each month, without making immediate collections from the noncustodial parent's employer. Withholding by and collections from the employer would begin later. This approach also would take into consideration the various circumstances of noncustodial parents and their differing reasons for nonpayment, such as those who are fleeing to avoid payment, those paying "under the table," and those who are truly financially unable to pay.

Points Made During Discussion

- A representative from ACYF asked what the suggestions were for how to update support orders on a periodic basis without forcing both custodial and noncustodial parents to pay for lawyers.

Primus responded that under the Downey-Hyde proposal, on the basis of information already provided by both parents on their federal income tax returns, the award would be adjusted administratively if income had changed over a two to three year period. Only if the parties did not accept the award would lawyers be involved.

Meyer added that the Family Support Act does require periodic award updates. Some recent studies have shown that in this process of periodic reviews, among AFDC cases, some awards go up dramatically, but many do not. For non-AFDC cases, however, reviews do not take place unless one of the two parents requests it, and most do not.

- An Office of Child Support Enforcement staff member asked about the possibility that implementing the child support assurance system would be done in two stages, first calculating the paid support, and the unpaid portion would then be paid through the assurance system.

Primus agreed that the proposal needs to be implemented in stages. However, assurance is the key link to the support system as whole, particularly in terms of paternity establishment.

Steuerle added that some parts of the proposed support assurance system couldn't function without others and some parts, creating a central IRS apparatus for example, may take many years to accomplish. But perhaps the most essential ones, such as paternity establishment, should be worked on first to see they can be made administrable.

- A staffer from ASPE questioned what the research base is for assuming that the \$1,000-2,000 assured benefit would be enough to encourage a significant number of custodial parents not presently seeking awards to pursue the establishment of paternity and awards. (On the CPS survey, 40% of those who do not have awards say they are not interested in one.)

Meyer agreed there was not much research on what we could expect an assured benefit to do.

Primus added that assurance should be perceived as an entitlement to the child, which should not be affected by the custodial parent's situation. He didn't think paternity establishment has really been "marketed" the way it needs to be.

- A member of the audience pointed out that issues of how to establish more legal paternitys and child support awards, and guarantee assured benefits were separate, sequential issues. She was skeptical about whether the promise of an assured benefit being available somewhere down the road if her current relationship broke up would get the mother to help establish paternity in the present.
- A staff member of the Select Committee on Children, Youth and Families reminded the audience that even a small increase in collections is significant and should not be ignored. She also pointed out the tremendous disincentive to establishing paternity in the welfare system, which at the moment guarantees only a \$50 pass-through of any child support payment and the parent might be able to get more "under the table" from the father without establishing paternity. She was also concerned that it would be premature to go to the assured benefit before we have really tightened up the system and collected all the uncollected support payments. Otherwise, we may end up with more nonpaying, noncustodial parents, not fewer, and this would cost the federal government so much more.
- Wade Horn, a member of the National Commission, raised the question of the \$40 billion annual projected cost of the Commission's tax credit recommendation and pointed out that the Commission proposed seven options for financing this proposal, but decided not to recommend any one of these packages itself. He asked Hayes and the panel which of these options they thought would be preferable.

Hayes responded by referring to the seven options for financing the Commission's proposals, which call for a combination of reallocating existing federal spending and some new sources of revenue. She explained that all of these options reflected the Commission's agreement on three basic financing principles, namely, deficit neutrality, that families with children shouldn't bear the sole burden of the cost, and that the funding sources must have potential for growth through built-in growth mechanisms (see summary of *Beyond Rhetoric*, pp. 92-93).

Steuerle's response was that one had to face the fact that significant, worthwhile changes cost a significant amount of money. "You can't do a lot with a little." Putting this proposal in context, he pointed out that \$40 billion is a relatively small amount compared with the cost of other major programs in the domestic area---for example, government support of health programs is around \$400 billion and increases by \$20 billion a year in real terms. Public expenses on education and social security are also in the hundreds of billions of dollars. "Somehow, as soon as we talk about welfare and poor families we can no longer talk about large amounts of money," Steuerle said. "If children are really going to become a priority, we have to allocate them similarly substantial resources."

- The chief of the Child Care Division in Montgomery County, MD, spoke to the issue of educating mothers about paternity establishment and the success of the county's attempts to do this. In their welfare program, the seeking and securing of child support is a major requirement, as is working full time. The typical applicant, when told about this, will at first

say, "I don't want to have anything more to do with that S.O.B." It takes their caseworkers about 15 minutes to get the applicant to agree to come in and talk about it. She said that the resulting increased child support (they have close working relationships with the circuit court) generally covers the cost of the child care subsidy. They have found that in a six-month period, 55% of use less public money. In addition, about 50-65% are eventually moving to self-sufficiency. In their very small program they are collecting about \$3 million in child support monies.

- In response to a question, Primus defended the fact that the assured benefit would be given to some nonneedy families---the universality of the program is one of the factors which he believes will give it political support. There are a lot of nonpaying, middle-income fathers.
- Another person questioned whether the program would only serve to encourage family dissolution. Primus countered by saying that on the contrary, the strong emphasis on assuring that fathers, as well as mothers, fulfill their financial responsibility would hopefully get the message out to some men that if you father a child, you will have to pay for 18 years. This may encourage more sexual responsibility and marital stability.
- Ooms said that there is no state that has yet tried to implement all four "legs" of the child support assurance plan. Some are wondering whether the proposal could be tried out at the state level first before becoming a national program. What did the panelists think about this?

Primus and Meyer thought it clearly could be phased in at the state level. Meyer added that there are a number of quite thorny state/federal issues---any move towards federalization raises a number of quite complicated and controversial questions (see p. 25).

Primus pointed out that in the Downey/Hyde proposal, all collections and assured benefits would be at the federal level. But it doesn't have to be that way. If you put some of the enforcement back at the state level, then the costs of the assured benefit would also need to be assumed by the state. It is not clear what the IRS's role should be. This agency has a lot of critical information needed by the states, but perhaps it's role should be only a residual one in terms of collection.

- One questioner expressed concern about opening up the JOBS program to noncustodial parents when only a small fraction of custodial parents were presently enrolled in JOBS. Primus said that the proposal does include an expansion of funds for JOBS. "But if you are serious about equality, we do need a balance (of parental responsibilities), and after enrolling the volunteer mothers, we should open it up to the fathers."

REDUCING FAMILY POVERTY: TAX-BASED AND CHILD SUPPORT STRATEGIES

Background Briefing Report

INTRODUCTION

It is becoming increasingly clear that current programs to reduce child and family poverty, while they provide some short-term assistance, are not effective enough. Unacceptably high rates of family poverty persist. The government's major family poverty program---the AFDC program---discourages work and marriage, and perpetuates dependence. Impelled by a growing body of research about family poverty, policymakers, analysts, and advocates have been rethinking current directions and putting forward a wide range of proposals to reduce family poverty. Some proposals---such as more effective child support enforcement, further expansion of the earned income tax credit, or improvements in the JOBS program---represent a strengthening of current policy. Others, such as the child support assured benefit or the refundable tax credit, imply radical change.

These proposals reflect a new recognition that the causes of family poverty are varied and complex. In part, poverty is a result of parental behavior such as marital break-up or nonmarriage. In part, the high rates of poverty are a result of structural changes in the economy and of social and tax policies that have even left large numbers of married, working families poor. In part, it reflects parents' lack of sufficient skills and education to work at the jobs that are available.

Given these different causes, there is a general consensus that no single proposed solution is sufficient. Different strategies are needed to accomplish somewhat different, though related, goals and reach different groups of poor families. For this reason, an interlinked package of proposals is necessary to achieve any significant reductions in overall poverty.

Current proposals all aim to reduce family poverty, but within this broad goal are embedded several discrete objectives:

- To ease the costs of raising children, in part to prevent families from becoming poor or becoming welfare dependent.
- To encourage or require both parents to fulfil their economic responsibility to their children.
- To eliminate the work disincentives in current welfare policy and promote economic independence.
- To provide income support to families and their children in a nonstigmatizing way.
- To help make work pay for employed parents.

Several new themes run through many of these proposals. First, the idea that targeted, means-tested programs need to be replaced by strategies that build on social insurance principles and imply a universal rather than a targeted approach. Second, that benefits be structured in a way to promote and reward desirable behavior. Third is a renewed interest in involving the tax system as an instrument of social/family policy.

Three overarching questions should be kept in mind when assessing the package of proposals as a whole:

- The arguments for universal programs clearly have strong rational and political appeal. Yet in view of the nation's serious budgetary constraints are they currently affordable?
- Some believe that the more ambitious of these proposals require a greatly increased federal role. What is the proper balance of federal and state authority, responsibility, and resources in strategies to reduce family poverty?
- The new strategies, if enacted, would involve many different agencies, departments, and levels of government. In practice, how will the different components of a multi-pronged, anti-poverty strategy interact? To what extent are they complementary? To what extent will they duplicate efforts?

This background briefing report will examine two major types of strategies that help to provide poor families with income support. In Part I we discuss tax-based reforms aiming to help all families raise their children, and to specifically augment the low incomes of working parents. In Part II we discuss current and proposed child support reforms that aim to improve the economic situation of all children being cared for by only one parent, of whom about one-half are poor. We then describe the philosophy and structure of the bold new Child Support Assurance proposal which is gaining many adherents across the political spectrum, and present some of the arguments for and against the proposal to federalize parts of the child support system. (In a subsequent seminar we will address labor/welfare strategies targeted on the poor and designed to improve family income and independence through training and jobs programs, and proposals to increase wage rates or provide wage subsidies.)

In Part III we briefly summarize four comprehensive proposals which encompass both these strategies and were introduced in the 102nd Congress. These have laid much of the ground work for proposals that are expected to be introduced in the 103rd Congress. These proposals are:

- Child Support Assurance Act of 1992, S. 2343
- Family Income Security Act of 1991, S. 2237
- Downey/Hyde Child Support and Assurance Initiative of June 1992
- Working Family Tax Relief Act of 1991, H.R. 2242.

Finally, we include a list of resource organizations involved in both child support and tax-based reforms, and a list of selected references.

Note: Background briefing reports prepared for the first two seminars in this series on family poverty synthesize data and research on family and child poverty, providing essential background for the policy discussion in this report. (See Ooms, T., *Families in Poverty: Patterns, Contexts, and Implications for Policy*, July 1992; and Ooms T., and Figueroa, I., *Latino Families, Poverty, and Welfare Reform*, September 1992.)

PART I. TAX-BASED STRATEGIES

(Sources: Carlson, 1989; Kamarck and Galston, 1990; Marcuss and Nielsen, 1985; Penner, ed., 1981; Select Committee, 1985; Shapiro, 1991; Steuerle, 1983, 1987, 1990, 1991, and 1992)

Tax reforms are rapidly gaining broad acceptance as an instrument of family and social policy. In recent decades policymakers from across the political spectrum have become increasingly attracted to using the tax code to reduce the rates of family poverty. This development has intensified over the past decade as part of a broad new interest in tax policy. The eighties have been recently dubbed the *The Tax Decade: How Taxes Came to Dominate the Public Agenda* (the title of a new book by Eugene Steuerle), since it was "during this period the U.S. witnessed more frequent and detailed changes in federal tax law than ever before in its history" (Steuerle, 1992). The treatment of families in the tax code is a minor theme for most of the tax legislation discussed in Steuerle's book, except for the 1986 Tax Reform Act and the expansion of the earned income tax credit in 1990. However, in the last chapter the author predicts that the tax treatment of households with children is a major tax issue likely to have a considerable impact on future budgets.

Concern about the relative economic decline of families with children has led to several major proposals for new or expanded tax reforms that would provide families with tax relief or direct income subsidies. The most far reaching of these proposals is the recommendation of the bipartisan National Commission on Children to create a \$1,000 refundable child tax credit for all children through age 18. This proposal would cost the nation about \$40 billion a year. The refundable child tax credit is at the heart of the Family Income Security Act, introduced in the 102nd Congress by Senator Jay Rockefeller, chairman of the Commission.

Senators Bentsen, Dodd, and Moynihan, and several Representatives have introduced similar, though more modest reforms. Strong support for a tax-based approach is expected to be forthcoming from the incoming Clinton Administration since in the Clinton/Gore book, *Putting People First*, the authors pledge to grant tax relief to all families with children and specifically mention expanding the Earned Income Tax Credit.

Before we outline the rationale for this and other tax credit proposals and discuss how they work we will step back to review the evolution of interest in how the tax code has distinctively treated families over the past decades and how it can be used to strengthen families.

Definitional note: *Tax expenditures are revenue losses attributable to provisions of the federal tax code that allow a special exemption or deduction from gross income before taxes are calculated or that provide a special credit, preferential tax rate, or deferral of tax liability. In effect, these are indirect federal subsidies that encourage or reward certain activities and/or assist certain groups. Tax expenditures are "hidden" in the sense that they do not show up as direct program expenditures in the federal budget. However, the part of any credit that is refundable is counted as a budget outlay.*

Although not all are treated in the budget as tax expenditures, tax exemptions or deductions such as the personal/dependent exemption provide a greater benefit to families with higher incomes since they reduce the amount of income that is taxable and, therefore, are worth more to people who are taxed at a higher rate. Tax credits provide more help to lower-income families since they are a direct credit against the taxes owed. A \$1 tax credit reduces taxes paid by \$1.00. A \$1.00 exemption reduces taxes by about 31 cents for a tax payer in the highest tax brackets, and by only 15 cents for those in the lowest brackets. (Note, however, that credits are not necessarily much more helpful to low-income families if the basic tax structure is changed.)

Some credits are refundable, meaning that if a poor family has no tax liability it will receive a payment directly from the IRS for the amount of the credit. The personal exemption is taken for

the tax payer and also for each dependent. We shall refer to it in this discussion as the dependent exemption.

History of the interest in the tax treatment of families

The original interest in the various ways families were treated in the tax code was largely confined to academics and tax experts. Public interest arose in the late seventies largely in response to changing trends in family life which called into question the traditional assumptions about family structure and behavior upon which much of the code was based. Papers covering a breadth of these family tax issues were presented at two conferences on the subject. The first conference, sponsored in 1981 by the American Enterprise Institute, resulted in a volume which examined issues such as the marriage penalty, the tax treatment of households with dependents, the estate gift duty and the family, and social security and the family (Penner, ed., 1983).

The second conference, held in 1985 and sponsored by the Women's Research and Education Institute and the Family Impact Seminar, was titled *Federal Tax Policy: What's In it for Women and Families?* Among the four commissioned papers was a paper on tax reform and the family (Steuerle and Gerardi, 1985) and one which examined the differential effects of various tax reform proposals on different types of families (Phillips, 1985). These conference papers were published by the House Select Committee on Children, Youth and Families (see Select Committee, 1985).

Some of the issues discussed at these conferences had already begun to attract public attention in the media and among policymakers. One was the treatment of two-earner families, which resulted in many cases in a so-called **marriage penalty**. In other words, the tax liabilities of some employed, unmarried couples would increase if they married, or, if married, would decrease if they divorced. This so-called "penalty" was modified somewhat in 1981 by permitting a partial deduction on the second income. But the 1986 tax reform reduced the underlying penalty and then eliminated the deduction, partly for simplification and partly because its benefits extended beyond those households with marriage penalties.

Child care tax deduction/credit. Another issue getting attention in response to the increasing numbers of mothers who were employed was the child care tax deduction which was initially increased in 1971. The deduction was then replaced with a tax credit in 1976, making it more valuable to lower-income taxpayers. The credit was considerably increased again in the early eighties, and extended to include the care of elderly dependents as well. The dependent care tax credit has been a major source of child care subsidies for middle-income families.

Declining value of the dependent exemption. The dependent exemption is the way the tax system makes adjustments for family size. Additional arguments that have been made for restoring the value of the exemption are that families with children should be given preferred tax treatment since society as a whole benefits from investing in children's well-being. For example, families who do not have children depend on other people's children to fund at least part of their social security (Carlson, 1989).

Beginning in the late seventies, Eugene Steuerle, a tax economist working at the Treasury Department, pointed out in several publications that the value of the dependent exemption had greatly eroded since 1948, when at \$600 per person it represented 40% of per capita personal income. "By almost any measure, this decline in the personal exemption has been the largest single change in the income tax in the postwar era," (Steuerle, 1983, p. 74). The change was not deliberate but came about inadvertently as a result of a failure to adjust it upwards to keep pace with inflation and rising incomes of this period. In 1990, to be worth what it was in 1948 in terms of a proportion of income, the dependent exemption should have been about \$7,800 rather than the \$2,050 it in fact was.

The call to raise the dependent exemption was initially heard from several conservative Members of Congress and attracted support from republican analysts such as Carlson (1989). For example, Dan Coats (R-IN), ranking minority member of the House Select Committee, spoke passionately on the subject at the 1985 hearing on tax policy and the family, and about his introduction of a bill to double the personal/dependent exemption. Some years later, the Progressive Policy Institute, the research arm of the Democratic Leadership Council, issued two papers recommending components of a pro-family tax policy including raising the personal exemption (although making it more progressive) and expanding the earned income tax credit (see Kamarck and Galston, 1990; and Shapiro, 1991).

In fact, the 1986 Tax Reform Act raised the exemption to \$2,000, effective in 1989 and indexed for inflation thereafter. (Not coincidentally, Eugene Steuerle was the economic coordinator of the Administration reform plan.) As interest began to shift to the need to focus on supplementing the incomes of poor families with children, raising the exemption (which proportionately benefited those with higher incomes) began to appear less attractive.

Family Allowances/Refundable Tax Credits

(Sources: Kahn, 1985; Kahn and Kamerman, 1983; Piccione, 1983; Select Committee, 1985)

The general notion of creating tax-based mechanisms to directly supplement the incomes of the poor had been in the air in the U.S. for a couple of decades. The 1977 report of the Carnegie Council on Children, *All Our Children*, devoted a large section of its chapter on income supports to a detailed discussion of its credit income tax proposal (Keniston, 1977). This involved replacing most existing exemptions and deductions with a tax credit which would be given in the form of a direct payment to those with no tax liability. The negative income tax experiment of the seventies, followed by President Nixon's plan for a Family Assistance Plan to guarantee a minimum income were all variations on the same idea. The notion resurfaced in the eighties, in part due to a growing interest in finding an American equivalent of the European family allowances.

In the 1985 House Select Committee hearing on families and tax policy, Alvin Schorr, of Case Western Reserve University, agreed with the concern about the declining value of the dependent exemption and the decline in the economic situation of many low- and middle-income families, and proposed a refundable tax credit of \$400 per person. He believed this was a more efficient way to remedy the situation than an increase in the personal/dependent exemption. In fact, the credit would take the place of the personal exemption.

Schorr pointed out that all western industrialized countries except the U.S. had a basic program that provides a direct sum of money for every child to defray part of the costs of raising the child and is given without regard to income. These are known as family or children's allowances. They are distinct from the American model of indirect aid through the dependent exemption because they are paid to all families with children, not just those who pay taxes. Schorr commented that the refundable tax credit was, therefore, a variation on the family allowance.

Interest in child and family allowances had been sparked by the comparative studies of European family policy conducted by Sheila Kamerman and Al Kahn (1983). Family or child allowances in some form are provided in most industrial nations as a mechanism to ease the child raising expenses of families. Family allowances have a long history. In some countries in the 19th century family allowances were seen as an alternative to the family wage, namely where salaries were adjusted for the numbers of children. (The traditional idea of a family wage is that a father should be able to earn enough by himself to support a family so that his wife could remain at home to care for them.) (Carlson, 1986) In countries with declining populations the concept gained additional support in the twentieth century, since it was hoped that providing family allowances

and other family benefits like maternity leave would encourage higher birth rates. Although they have never been effective as an instrument of population policy, family allowances have remained very popular. Perhaps in part because they provide a strong statement about the nation's valuation of children.

In 1989, numerous child tax credit proposals were introduced in the Congress as part of the discussion and debate about the best way to help support low-income families, especially with child care. In general, Democrats favored proposals that subsidized child care directly, for example, making the dependent care credit refundable. Republicans, including President Bush, promoted tax subsidies to families with children which remained "neutral" on the subject of whether to support home production or child care outside the home. The tax reforms that finally gained the support of both parties included a substantial expansion of the Earned Income Tax Credit (which has always been refundable), and a new, additional, small Young Child Credit---which was essentially a targeted earned income credit---to be claimed for a child under one year old. (This credit can only be claimed if no claim is made for child care expenses for that child.) (See Golonka and Ooms, Jan. 1991)

(Some of the recent literature on the subject of family allowances is summarized in a booklet on the subject published by the Free Congress Research and Education Foundation and authored by Joseph Piccione (1983). The role of family allowances as part of a broad package of transfer programs and income supports in European countries is discussed in Kahn and Kamerman (1983).)

National Commission Proposal for a Refundable Child Tax Credit (Sources: National Commission on Children, 1991; Sawhill, 1992)

After two and a half years of intensive investigation and deliberation, the bipartisan National Commission on Children (NCC) unanimously approved a set of recommendations for a comprehensive income security plan for children and families. (The final report also included recommendations in the areas of health, education, social services, and other child and family supports.) The centerpiece of the plan, and by far the most costly, is the \$1,000 refundable tax credit for all child through age 18. In spite of its cost, this was the major consensus item among the liberal and conservative members of the Commission.

Families filing income tax returns whose tax liability is less than the value of the credit would receive a cash payment for the amount of the difference from the IRS. The credit would be indexed to grow with inflation. The report explains that the proposed \$1,000 per child tax credit is equivalent in value to a \$3,225 exemption for taxpayers in the 31% marginal tax bracket and a \$6,666 exemption for taxpayers in the 15% bracket. (In contrast, the 1991 personal exemption of \$2,150 is equivalent to \$666 in a credit for families in the 31% bracket and \$322 for those in a 15% bracket.) The recommendation built upon the analysis in a paper commissioned by NCC, authored by Eugene Steuerle and Jason Juffras of the Urban Institute (1991).

The report explains the reasons for this bold proposal in these words:

"In concurrence with other scholars and commissions that have addressed these issues, the National Commission on Children believes that U.S. tax policy should bolster families and that government should not tax away that portion of a family's income which is needed to support children. Based on our review of the economic status of families with children and the effects and effectiveness of U.S. Tax Policies, we conclude that further steps are needed to build upon the momentum of pro-family tax reform begun in the late 1980s..."

And in a later paragraph the reasons for choosing the vehicle of a refundable child tax credit are made more specific:

"Because it would assist all families with children, the refundable child tax credit would not be a relief payment, nor would it categorize children according to their "welfare" or "nonwelfare" status. In addition, because it would not be lost when their parents enter the work force, as welfare benefits are...(it) could provide a bridge for families striving to enter the economic mainstream. It would substantially benefit hard-pressed single and married parents raising children. It could also help middle-income, employed parents struggling to afford high-quality child care. Moreover, because it is neutral toward family structure and mothers' employment, it would not discourage the formation of two-parent families or of single-earner families in which one parent chooses to stay at home and care for the children" (NCC, 1991, pp. 94-95).

The refundable child tax credit would cost \$40.3 billion annually rising to \$43.4 billion in 1996. Concerned about the high cost of this plan some commissioners suggested that one possibility would be to limit the credit to families with incomes under \$150,000. This would, however, only reduce the estimated costs by \$1.1 billion. The Commission charts out a number of options for financing this and the other components of their overall recommendations ranging from the imposition of new taxes to the reallocation of funds from existing benefit programs (see Appendix B, pp. 448-451).

Undoubtedly, because the refundable child tax credit proposal benefits all types of families with children and adheres to so many of the other family policy principles that have achieved a broad consensus (see p. 1), this costly proposal gained the support of all the Commissioners, some of whom were quite liberal and others quite conservative.

The arguments in favor of the refundable child tax credit have broad political appeal, however, as economist Isabel Sawhill points out in a recent Brookings volume, tax relief for families has a number of drawbacks:

"First, not everyone agrees that the costs of raising children should be socialized. At issue is the extent to which families without children should be expected to subsidize those with them. Second, lower taxes on families with children are not necessarily the best way to increase the well-being of children: As noted earlier, beyond a certain minimum the effects of income on children's lives appear modest and uncertain. Moreover, most children are economically better off than they have ever been. Although giving parents more income might reduce the stresses of family life and help children, it is not a cost-effective use of government funds. There is good reason to think that a billion dollars spent on Head Start or prenatal care would be more effective than a billion in tax credits for middle-class parents. Moreover, whatever the effects of added income, they are likely to be greatest if assistance is concentrated on low-income children; and it is low-income children who have fared the worst in the past several decades.

The traditional form of support for poor children---public assistance---is both antiwork and antifamily. One solution is to expand the earned income tax credit..." (Sawhill, 1992 pp.172-173).

Earned Income Tax Credits

At the 1985 House Select Committee hearing, Marian Wright Edelman, president of the Children's Defense Fund, argued for an expansion of the Earned Income Tax Credit (EITC). Numerous advocates and lawmakers in both parties agreed with her. The EITC is a provision of the tax code enacted in 1975 which permits low-income tax payers with dependent children to claim a credit against their federal income taxes. It has always been refundable. In 1975, the credit was 10% of

earned income up to \$4,000, with a gradual phasing down above that level so no credit was available above \$8,000. There are three features of the current credit: a credit rate up to a certain level of income, a plateau which remains constant over several income levels, and a phase out rate (see Charts I and II).

Since 1975, there have been only minimal structural changes made in the EITC, but there have been several attempts to change actual dollar amounts and rates to maintain and increase its value. Nevertheless, up until 1984, these changes failed to keep up with inflation. Between 1975 and 1984 the maximum credit fell by 35% in real terms.

In 1990, the OBRA legislation expanded and simplified the EITC and introduced two new credits, one for families with a child under age one (the "wee tot" credit) and the other a credit to help cover the expenses of health insurance. Effective in 1991, the basic credit is expanded in phases through 1994. By 1994, an eligible family with one child will receive a credit worth 23% of earnings, while a family with two or more children will receive a 25% credit. The maximum credit will rise to around \$2,000 for a family with two or more children. (The credit is now indexed for inflation). The income level at which the credit begins to phase down is around \$13,000 until it phases out at \$24,000. The "wee tot" credit will be about \$400 by tax year 1994 (see Charts I and II).

Eugene Steuerle has pointed out that the EITC straddles the welfare and income transfer systems. When first enacted it had two primary purposes: to provide a work incentive to AFDC recipients and to offset the regressive burden of social security payroll taxes on low-income working parents. More recently, its relationship to welfare reform has assumed additional importance since the credit helps to make work more remunerative relative to welfare. In addition, it may help former AFDC recipients remain in the labor force after the one year of JOBS transitional child care assistance has ended.

Because of the very low income levels at which the credit is phased out, it has been especially important to part-time and part-year workers, but recent expansions have increased its value to full-time workers. Since 1979, payments have been able to be made monthly, in advance, through the pay check to eligible employees if they file a yearly certificate. However, this provision is seldom used.

Steuerle has also noted that the EITC includes a substantial marriage penalty which results from phasing out the credit over the same income range for both single- and two-parent families. For example, a single parent who works at a full-time, low-paying job may be eligible for a sizeable credit. However, if she or he marries someone who earns the minimum wage or more, their joint income will be raised to a level where the credit is small or lost altogether. Steuerle notes that the combined result of welfare and the EITC is that the "message from Congress of this provision to low-income, single heads of households is quite clear: DONT GET MARRIED," (Steuerle, 1990, p. 1691). However, it is not possible to eliminate this EITC marriage penalty while retaining income-based phase outs.

Adjustment for family size. The two benefit levels (one child and two or more children) have been lauded as the first step towards adjusting the credit for family size---a principle many have wanted to see incorporated into the credit. Family needs increase with family size and both the poverty measures and AFDC benefits recognize this fact. The result is that as families grow large, work becomes relatively less attractive and welfare more so. However, as presently constructed there is only a small difference between these two benefit levels in the revised EITC. Since 60% of all children whose parents are eligible for EITC live in families with three or more children, many are proposing adding another level of benefit for three or more children.

The IRS and several nonprofit organizations are working to inform eligible low-income families about the availability of this credit. Experience over the past two years has pinpointed three problems with implementation of the law that threaten to limit its effectiveness. First, it is now significantly more difficult to claim the benefit since an additional form must be filed with the basic tax form. Second, very few people take advantage of the advance payment provision, in part because no one really knows how much credit they are going to get until the end of the year. Third, eligibility can no longer be determined by the IRS simply from information on the basic tax form. For a short period this was possible, which permitted the IRS to automatically inform taxpayers of their eligibility for the credit.

PART II CHILD SUPPORT STRATEGIES

The Problem of Child Support

(Sources: Bureau of the Census, 1991; Committee on Ways and Means, 1992; Ellwood, 1988; Legler and Ellwood, 1992; Meyer, 1992; Meyer and Garasky, 1992)

In the 102nd Congress several dozen bills were introduced proposing new improvements in the federal/state child support system. In July 1992, The U.S. Commission on Interstate Child Support, established as part of the Family Support Act of 1988, issued its nearly 500 page final report to the U.S. Congress, including many recommendations for reform. The National Commission for Children issued its final report in May 1992, and recommended major reforms in the child support system as part of its comprehensive income security recommendations. And promises to "crack down on deadbeat dads" were among the most frequent and well-received campaign pledges made by Democratic and Republican candidates alike, including President-elect Clinton. Senate Majority Leader Mitchell recently set up a Democratic Task Force on Child Support, including the chairs of four major committees, with the task of developing a comprehensive bill of reform to be introduced in the next Congress.

Why is child support getting so much attention from policymakers and the public? The first reason is that the issue affects such large numbers of families and children at all income levels and involves a lot of money. The very high divorce and out-of-wedlock birth rates mean that nearly 50% of all children born today will spend some time in a single-parent household. In 1990, almost one-fourth of all children lived apart from one of their biological parents. Over 22 million children are, in theory, eligible for support from their noncustodial parent, of whom between 85-90% are fathers. About 10 million mothers live with children (under 21) whose fathers live elsewhere. Thus, child support is an issue that will touch the lives of the majority of Americans at one time or another, either during their childhood or once they become parents.

For all these children and their custodial parents it is a matter of considerable importance whether the absent parent pays child support or does not. Receipt of child support is especially critical for the roughly half of the single-parent households whose income is below the poverty threshold. The interest in improving the enforcement of child support obligations was fueled by the media and by research. Public outcry against the nonpaying dads and sympathy for the custodial mothers and their children has been inflamed by publicity given to outrageous cases---such as families living in poverty while the divorced father makes regular payments on his Mercedes Benz but pays no child support. In addition, several studies revealed that fathers' incomes typically rise post-divorce while the mothers' incomes drop sharply.

The second reason is that the problem of nonpayment of support is linked with the high public expenditures on welfare programs. In the sixties and early seventies, the focus of concern was on

the mothers who received welfare benefits. Little attention was paid to the absent fathers. In the mid-seventies and eighties, fathers' obligations to pay support were being rediscovered and policymakers began to be interested in the savings in welfare costs that could be realized if more fathers paid child support.

The Scope of the Problem

Before a custodial parent receives support payments, several steps must be completed. S/he has to be awarded a specific amount by a court or administrative order or, if not married to the other parent, as a result of prior legal establishment of paternity. Thus, the national problem of child support is not just a question of nonpayment. It is a compound result of problems in four separate areas: (i) Failure to establish legal paternity for children born out-of-wedlock; (ii) Failure to establish support awards, especially for the never-married; (iii) Nonpayment of awards; and (iv) Low dollar award amounts.

(i) Paternity establishment. One-fourth of all children are born out-of-wedlock. Almost two-thirds of black children, and over one-third of Hispanic children are born to unmarried mothers. Estimates are that only about a third of these have paternity legally established.

(ii) Support awards. Census data report that in 1989 only 57.7% of the nearly 10 million women eligible for child support had established child support awards. These rates varied by family type and by race. Seventy-nine percent of remarried mothers, 76.8% of divorced, 47.9% of separated, and only 23.9% of never-married mothers were awarded child support payments. Black and Hispanic mothers were less likely to have awards in place. Of all custodial parents who receive AFDC or Medicaid under the medically needy program, only 30-35% have awards.

(iii) Nonpayment of support. Of all those with awards, 75.2% report receiving any support. The rate of payment did not vary by family type, although it was lower for poor mothers. However, only about 51% received the full amount they were due. About 25% received less than the full amount and another 25% did not receive any payment at all.

In 1989, census data report that \$16.3 billion in child support payments were due, but actual payments only totalled \$11.2. Thus, the child support collection problem could be measured as a short fall of \$5.1 billion dollars. This figure does not count the additional monies that would be due if a higher proportion of mothers had awards.

Policymakers are especially interested in the extent of the problem of nonsupport for welfare families. It is difficult to get precise numbers. In terms of the single mothers who receive AFDC/Medicaid, about two-thirds of the 30-35% with awards report that they received some or all of the payments they were due. In other words, at least three-quarters of the AFDC/medically needy single-parent families received no child support at all.

(iv) Low dollar award amounts. On the census survey, mothers reported the average amount per child that they had received in 1989 was \$2,995. The mean amount received by divorced and separated women was much higher than that received from never-married women (\$3,132 compared with \$1,888). The average amount of support received by black women was considerably less than by white and Hispanic women. These amounts compare unfavorably with what has been estimated as the minimum necessary to raise a child and, for those who were once married, is presumably less than what was spent on the child when the parents were married. The low value of awards amounts can be the result of a low initial award or of the failure to update the award. Another problem with the data is that AFDC mothers typically only report what amount of support they receive (that is the amount of pass through) rather than what the father actually paid in child support to the IV-D Office.

Some estimates have suggested that if all cases had awards, award guidelines were universally applied, and collection were 100%, an additional \$15-20 billion could be collected from noncustodial parents.

Clearly, the failure to receive any child support or the receipt of too little support contributes to many mothers being poor and/or dependent on welfare. In 1989, women who actually received child support payments had a poverty rate of only 21.8% compared with 43.2% for women who were without child support awards (Bureau of the Census, 1991).

What is known about the reasons for nonpayment and failure to establish awards?

Media reports of nonpaying middle- and high-income fathers have created the stereotype of the "deadbeat dad." In fact, willful nonpayment by those who have the ability to pay is only one of a number of reasons for nonpayment. Lack of income is one reason, but there are also a number of others. Unfortunately there is limited data available about the characteristics of absent (noncustodial) parents, so we have very inadequate information about which reasons are most important for which groups of fathers.

Inability to pay. In the 1989 census survey, 14.5% of the mothers said that the father was "unable to pay," and 18.5% of poor mothers cited fathers' inability to pay as the reason for not having an award. In the absence of a national survey of noncustodial parents, several studies have used indirect methods of computing noncustodial fathers' income from existing data sets and they do not show the average noncustodial father to have lots of spare income. However, all conclude that in the aggregate the majority of nonpaying custodial parents do have income and could pay considerably more than they presently do (see Legler and Ellwood, September 1992).

Most of the studies on these questions have obtained data from, or about, divorced and separated fathers and most are cross sectional, only focusing on incomes at one point in time, usually around the time of the divorce or separation. In a recent publication, Daniel Meyer prepared a Table summarizing the results of 14 studies on the income of noncustodial parents and using very different samples and different definitions of income (Meyer, 1992). The range of reported incomes of noncustodial fathers varied quite widely, from \$7,626 in a sample of the fathers of AFDC children in North Carolina to \$33,810 in a national sample of older, remarried fathers. However, an analysis of data from a very large national study (the Survey of Income and Employment) of divorced and separated fathers' incomes showed a range of \$12,760 for separated, minority fathers to \$26,582 for divorced, white fathers.

In terms of the unwed fathers---the group that might be expected to be the least able to pay---in a longitudinal study in Wisconsin, half of those over age 25 with income information had incomes over \$10,000. Importantly, their incomes increased by 69% over seven years of the study. The idea that many of these young men have very poor employment and income prospects did not gain much support in these data: the fathers who gained the most income over time were those who became fathers in their teens (Meyer, 1992).

In a national study of young absent fathers, Lerman pointed out that in the mid-eighties, although young fathers under age 25 only earned on average about \$6,000-8,000 in personal income a year, over 60% lived with either a parent or another relative. The family incomes of young fathers living at home averaged about \$23,000-25,000. Thus, since they probably received some in-kind support in terms of shelter and probably food, it was not unreasonable to expect these young fathers to be able to contribute about 20-25% of their earnings in child support payments. He also noted that the family incomes of young unwed mothers were about half of those of the fathers living with their families (Lerman and Ooms, 1988).

Nevertheless, there is general agreement that a substantial subset of nonpaying parents may be facing severe labor market difficulties that prevent them from paying support, certainly on a regular basis. In focus group discussions with noncustodial fathers held under the auspices of the MDRC Fair Share Demonstration program, suspicions of, and hostility towards, the child support system were additional factors to explain nonpayment (Furstenberg, *et al.*, July 1992). It is for this subgroup of fathers that traditional child support enforcement strategies will prove the least effective. This has led to a growing interest in finding ways to enhance poor, absent fathers' earnings capacities through offering them the same training and JOBS opportunities as offered welfare mothers.

Noncooperation of the mothers. Another very important reason for nonpayment and the initial failure to establish awards, and one that is given little attention is the "noncooperation" of a surprisingly large proportion of the custodial parents. Of the mothers surveyed in 1989 who did not have awards, 13.6% said they were unable to locate the father. In 1989, about 40% of mothers without awards reported that either they "did not want an award" or "did not pursue an award" (U.S. Census, 1991, p. 17). In theory, these reasons are not accepted for AFDC mothers who can only refuse to cooperate "with good cause." Nevertheless, there are many informal loopholes that they can use. In general, the reasons for mothers' noncooperation are complex and not well understood.

Serious limitations of child support and paternity data. Although these census figures are routinely and widely used, their limitations must be noted (GAO, January 1992; and Henry, July 1992). All the information on child support awards (both levels and degrees received) are obtained from the Current Population Surveys of the custodial mothers. There is no independent verification of this data from the fathers or from court records. Also, there is reason to believe that respondents on census surveys typically underreport income. Plans to conduct a national survey on absent parents were aborted by the Reagan Administration, although a pilot study suggested it was a highly feasible undertaking. Moreover, one unique feature of this planned survey was that matched mothers and fathers were interviewed so that their reports could be compared and reconciled.

This matching of information is important because several studies, including one national study of absent fathers (see Lerman, 1992 and in press), suggest that absent fathers report that they give more money and in-kind child support over the year than is officially reported by the mothers. (As discussed below, there are disincentives for AFDC mothers to report this income.)

Another serious data problem is that there are no reliable data available on paternity rates. Birth certificates are not a source for this information since, although the father's name appears on about a half of the birth certificates of children born out-of-wedlock, the father's name on the certificate does not have legal status in several states. No national surveys directly ask the question about legal paternity. Thus, it is simply not possible to say how many of the 1 million children born out of wedlock each year have had paternity established. But best estimates imputed from various sources are that nationally only 20-30% of out-of-wedlock children have paternity legally established.

Finally, there are many gaps and problems with the administrative program statistics prepared by the state and national child support offices. In addition, it is inherently difficult to mesh them with either the census data or the AFDC data, in part because they draw from different population pools.

These data problems seriously frustrate efforts to understand the problem of child support and to document effectiveness of child support enforcement activities.

Background and Overview of the Federal/State Child Support Enforcement Program

(Sources: House Ways and Means Committee, 1992; Meyer, ed., 1992; Meyer, *et al.*, 1992)

Although there had been a few sparks of interest in earlier decades, serious congressional interest in the issue of child support began in the early seventies in response to the growing numbers of single-parent households. In 1975, President Ford signed legislation which created an Office of Child Support Enforcement within HEW (adding Part D to Title IV of the Social Security Act). As later amended, this law authorizes federal matching funds to be used for enforcing the support obligations owed by noncustodial parents to their children and the custodial parent, locating absent parents, establishing paternity, and collecting child and spousal support. Amendments in 1984 required each state to implement arrearage-triggered wage withholding for enforcement of child support orders. Basic responsibility for the program is left to the states but the federal government plays a major and growing role in funding, monitoring, and evaluating state programs, and providing technical assistance.

Although Senator Russell Long, the prime initiator of the bill, declared that his primary interest was in trying to recoup some of the costs of the AFDC program, from the beginning the child support services were available upon application to non-AFDC families, usually for a fee of no more than \$25. (These child support system clients are known as non-AFDC IV-D cases.) The total IV-D caseload in 1990 was nearly 13 million, of which nearly 6 million were non-AFDC. The AFDC caseload now includes those who are deemed medically needy and receive Medicaid but not AFDC benefits. (In addition, of course there are cases in the private sector that do not use public services at all but private attorneys and private collection agencies, and are sometimes referred to as non-IV-D cases.)

The law also creates several federal mechanisms to help the states, including a federal parent locator service to supplement state services, the IRS (drawing on federal tax refunds to offset support obligations), and federal courts as needed. The law requires states to use a number of enforcement tools and techniques such as liens against property, and to petition to include medical support as part of any child support order. Many states contract with organizations in the private sector to carry out some parts of their responsibilities. The IV-D child support agency staff have to work continually with court personnel in the processes of establishing paternity and support awards, and with the AFDC program staff.

Families receiving AFDC/Medicaid benefits must cooperate with identifying the father and with seeking to establish paternity and securing child support payments, with exceptions made for "due cause" (e.g., abuse or incest). The rights to the child support payment must be signed over by the custodial parent to the state, and the monies are used to defray costs to the state and federal government, with the exception of a \$50 a month pass through to the AFDC parent.

Effectiveness of the Child Support Program

It is very difficult to assess the effectiveness of the child support program from the data currently available. For example, it is hard to decide which costs to include in any cost-effectiveness analysis since many costs are borne by the private sector or by other agencies such as the judiciary and are not known. It is also difficult to know how to measure the benefits and which types of benefits to include in the assessment. For example, some maintain that any cost/benefit analysis of the child support enforcement program should attempt to measure nonmonetary benefits to the child and custodial parent as well as direct monetary costs and outcomes (see GAO, March 1991). Further, although the non-AFDC cases are a net loss to the government in the short run, there is some reason to believe that the monies spent on the enforcement of these cases saves long-run costs through the prevention of welfare dependence in some cases.

Overall, the AFDC IV-D program makes money for the states. But the federal government, which pays most of the costs of the program, has never recovered its costs. In 1991, \$1.8 billion in federal and state Office of Child Support funds were spent to collect \$6.9 billion in support. \$2.0 billion was collected from AFDC cases and \$4.9 billion for non-AFDC. The states kept most of the net receipts.

IV-D program statistics report various measures of effectiveness. Since 1978, there have been huge increases in the total collections, the numbers of absent parents located, and paternities and awards established. There are enormous variations in state performance on all these indicators, however, which are largely unexplained. For example, performance in paternity establishment varies enormously, even across states with similar demographic and economic characteristics. This finding suggests that differences in state practice explain the bulk of the variations and that many states could greatly improve their performance.

In spite of this improved overall performance, in 1991, the net cost of the program to the taxpayer (including state and federal costs) was \$204 million, according to the Green Book, compared with a net public savings of \$201 million in 1979. Three reasons which help to account for this somewhat surprising finding are: (i) costs increased, in part, because from 1985 on the law changed to enable the \$50 pass through of the support payment; (2) a larger proportion of the caseload were never-married mothers, which accounted for a decline in the receipts; and (3) the increasing non-AFDC caseload.

However, for the population as a whole (i.e., IV-D and non-IV-D), as noted in the Green Book (Table 2, p. 709), data from census surveys of custodial parents show a very different picture, with a small percentage decline in awards in the period and very small increases in collections.

Child Support Provisions of the Family Support Act, 1988

(Sources: Ellwood and Legler, June 1992; Legler and Ellwood, September 1992; Takas, 1991; U.S. Commission on Interstate Child Support, 1992; Williams, 1992)

Any assessment of new child support reform initiatives should begin with an understanding of the reforms that were authorized by the Family Support Act of 1988 and are presently in the process of being implemented.

The Family Support Act included several significant improvements in child support enforcement, both strengthening changes that had been enacted in 1975 and 1984 and adding some new provisions. The Act made more explicit than previous legislation the responsibility of both parents to fulfill their financial obligations to their children through tying together child support reforms with the new JOBS program, requiring the custodial mothers to enroll in training and employment related activities.

The new child support requirements were to be phased in over several years. No study has yet reported on the status of implementation of all these provisions. But some information is becoming available from a variety of sources. For example, testimony provided to the Commission on Interstate Child Support and in various Congressional hearings offers some evidence of slow progress and documents some of the implementation difficulties being encountered at state and local levels. Policy Studies Inc., has reported on the status of four of the major new provisions (Williams, September 1992). And additional findings will soon be available from the Women's Legal Defense Fund's 50 state survey of the impact of child support guidelines on families' standard of living and children's poverty status (Dodson, in press), and from the Children's Defense Fund study of the status of paternity laws and model practices.

We outline some of the major provisions in the FSA below, comment when we can on their implementation, and discuss some recommendations being made for further improvement.

Paternity Establishment. Although unwed fathers were not mentioned explicitly in the Act, several provisions in the FSA encouraged states to make stronger efforts to establish paternity. These provisions include paternity performance standards; reimbursing 90% of the costs of laboratory paternity tests; extending the statute of limitations; requiring the states to collect social security numbers of both parents to be filed with, but separate from, the birth certificates; and explicitly encouraging states to adopt simplified paternity procedures.

These provisions fall short of an explicit requirement or expectation to establish paternity in all cases, including the non-IV-D cases. However, the implications of collecting the social security numbers at birth seem to imply that paternity establishment should be a goal for all nonmarital children.

A national survey conducted by the Urban Institute on the status of paternity establishment practices provides an overview of the status of implementation of these provisions on paternity as of 1990 (Sonenstein, Holcomb, and Seefeldt, 1992). The survey found wide variations in practice from state to state and often from county to county, and much fragmentation of effort and responsibility among several different agencies. However, many states and counties are moving to institute simplified, civil paternity procedures and 80% of the counties had already incorporated a voluntary consent approach. Few had engaged in any significant educational community outreach. The authors report some evidence that certain practices and procedures are associated with better performance rates.

In all cases, the process of establishing paternity depends heavily on the cooperation of the mother in naming and finding the father. Since it is estimated that over 80% of parents are still in contact with each other around the time of birth, three states, notably Washington followed by Virginia and Delaware, have pioneered innovative and vigorous outreach to young parents at the time of the birth of their child (Hoover, Paulin, and Wiggins, 1992). Personnel assigned to the hospitals provide information designed to encourage paternity establishment as a voluntary process and are having a high degree of success. As a result of these experiences, the Commission on Interstate Child Support, which devoted a chapter in its report to parentage, recommended that all states should be required to do this kind of hospital, or even prenatal clinic outreach to encourage more voluntary paternity establishment.

For years, proponents of child support reform seemed most, or even solely, interested in families in which there was separation or divorce, neglecting the needs of families where children were born out of wedlock. Reflecting the increased attention being paid to unwed fathers in research and programs (Lerman and Ooms, eds., in press), there has been a strong shift in the policy community since the Family Support Act towards paying more attention to the importance of encouraging paternity establishment, both to increase the number of support awards and for its other benefits for the child, monetary and nonmonetary (Wattenberg, July 1992, and in press). Thus, there are many new proposals emerging for improving the paternity system which go beyond the FSA, including separating the paternity procedures as much as possible from the process of child support (Ooms and Owen, November, 1990).

Child Support Guidelines. The provisions of the FSA generally considered to have potentially the greatest impact on the amount of child support collected were those focused on the perceived inadequacy of the dollar amounts of current child support awards. As a first step, the FSA required that state promulgated guidelines for setting child support awards (required in 1984) should be given the status of a rebuttable presumption. The states were given only one year to comply. By October 1989, all states had presumptive guidelines for IV-D and non-IV-D cases, with a couple of stragglers who complied soon after. In adopting guidelines, Williams reports that

with the exception of Massachusetts and District of Colombia which have a mixed approach, all states have adopted one of three general model guidelines. Overall, 31 states have adopted the Income Share guidelines, fifteen chose the percentage-of-obligor model, and three follow the Melson/Delaware model (Williams, September 1992). States, however, are free to revise and change these guidelines as they wish.

The guidelines appear to be being routinely used and well accepted by judges and other decisionmakers, and the public as well. Several studies suggest that use of these guidelines may have resulted in significant increases in the amount of the awards.

The Commission on Interstate Child Support found that the existence of different guidelines in different states results in an inequitable and confusing interstate system, and recommends that a Commission look into the feasibility of a national child support guideline that would apply in all states.

In addition, there are many issues that are not well addressed in the current models, such as how to account for and balance the support needs of an obligor's children residing in different families; whether the award should vary with the income of the custodial parent, or what kinds of extraordinary expenses need to be taken into account; and at what level of visitation should the child support award be adjusted to take into account a more even sharing of child-related expenses, and whether the support awards should address health insurance benefits.

Updating Awards. To assure fairness and integrity of the system, support awards need to be periodically updated to keep up with inflation (which raises the costs of caring for children), increases (or, less often, declines) in the income of either parent, and for various other reasons. The FSA required that, beginning in 1993, all orders must be updated every three years for AFDC cases and for non-AFDC IV-D cases upon request of the parties. Since existing processes for updating tended to be lengthy and cumbersome, the FSA authorized four states to conduct demonstration projects to test and evaluate procedures for updating awards.

The findings from a study of the experiences of these four states, together with those from a previous demonstration on this issue conducted in Oregon, are summarized in Legler and Ellwood (September, 1992). Among the findings are that updating of awards can substantially increase the amounts of some awards. Even when using existing judicial or quasi-judicial systems, the benefit-cost ratio makes updating worthwhile. Disturbing to some analysts was the fact that a very low number of non-AFDC cases requested review in these five states. Of all cases reviewed, a surprisingly low number were in fact modified. Of the cases modified in Oregon, 83% were modified upwards and 17% downward. There was a small impact on reduction in welfare dependency. However, the present system was found to take an inordinately long time (average time almost 200 days). Legler and Ellwood recommend a simpler administrative process which should be applied to all IV-D cases.

Automated Tracking and Monitoring Systems. Automated data systems are vitally important to improvement of the performance of the child support programs. They are especially crucial to improving interstate collections. The FSA required each state which does not already have a statewide automated tracking and monitoring system in effect to submit an advance planning document that met federal requirements by October 1991. By October 1995, every state must have an approved system in effect. Federal matching rates of 90% of the expenditures necessary to set these systems in place are available until 1995. This provision continued a policy of federal encouragement and assistance to states for automated systems that was begun in 1980.

Progress has been slow. A GAO study reported that as of May 1988, only two states had federally certified systems. By April 1992, another eight states' systems were certified using 1984 standards. (They must still be enhanced to meet 1988 standards.) 42 other states were still in the

planning and development phases. And two had not yet had their system plans approved by OCSE. In addition, GAO criticized OCSE for lack of oversight and not promptly requiring several states to remedy severely flawed systems, thus wasting much money (GAO, August 1992).

Automatic Wage Withholding. The FSA provided that states must implement immediate wage withholding for all IV-D cases by November 1990 and for all non-IV-D child support cases by January 1994. The only exceptions were if a court or administrative hearing officer finds good cause not to withhold, or both parties agree in writing that immediate income withholding shall not be required. For the IV-D system this was not such a radical change, since already by 1989, 41% of all IV-D collections were made by means of income withholding. However, it will be a radical change for the non-IV-D, private cases to have their income automatically withheld. Moreover, as the numbers expand and employers become more and more involved, there will be a need to minimize the costs of handling these transactions and to expedite payment. In addition, as the non-IV-D cases come into the system, there will need to be some central public mechanism to collect and disburse payments so that employers are not paying the individual obligee directly (and hence having to handle questions and disputes).

Wisconsin is one of several states with considerable experience in income withholding, including for the non-IV-D cases, and the experience has generally been positive, popular, and noncontroversial. Evaluation of effects of withholding revealed a small increase in child support payments (from 11-30%) between 1980-86 in ten counties compared with ten control counties. But it seems to be generally agreed that these gains in collection through income withholding will be modest compared with the potential gains of increased numbers of awards and increases in award levels (Garfinkel, *et al.*, 1992). In addition, income withholding is difficult to apply in many cases where the obligor changes jobs frequently, or is self employed.

Interstate Enforcement

About 30% of all child support cases are interstate, however, only about \$1 in every \$10 dollars collected is from an interstate case. It has proved to be much harder to collect child support across state lines. Sixty percent of custodial parents with awards in intrastate cases report regular payment as compared to only 43% of custodial parents in interstate cases. In fact, 34% of custodial mothers in interstate cases report never receiving anything (U.S. Commission on Interstate Child Support, 1992).

The FSA called for a Commission on Interstate Child Support to be set up and report to the Congress on recommendations for improvements in the interstate system and for revisions in the Uniform Reciprocal Enforcement of Support Act (URESA). URESA was enacted prior to the passage of the 1975 IV-D Act and had been the legal framework governing interstate child support. The Commission was composed of fifteen members, eight appointed by Congress and seven by DHHS Secretary Louis Sullivan. It held public hearings around the country, invited testimony from a wide range of parties, and held a national conference. Its report was issued in July 1992. Legislation to implement the Commission's recommendations has been introduced in the Senate by Senator Bradley (D-NJ), S. 3291, and in the House by Congresswoman Roukema (R-NJ), H.R. 6091.

The Commission's inquiry had a broad scope since many of the issues that affected interstate cases also affected intrastate cases. Hence, its report includes many findings and recommendations relevant to the child support enforcement system as a whole.

The report is long and very detailed. Among the major recommendations made by the Commission, many of which have also been proposed by other advocates and analysts, are the following:

- **Central registries.** All states should maintain a Registry of Support Orders for all IV-D cases and, upon request, other cases. States may choose to include all cases in the Registry, or all except those that opt out. This system would operate under the provision of "locate only services" currently allowed by federal regulations.
- **A national computer network** should be created which would allow access to information on all outstanding support orders, as well as locate information. This could be achieved through linkages between statewide automated computer systems and an expanded federal Parent Locator System.
- **Employers must require new employees to report any child support obligations on their W-4 form** so that withholding can start immediately. The W-4 information could be run through the national computer network to learn of any match with a state support order or whether the employee is being sought by a state to establish an order. Withholding orders/notices should be sent directly across state lines to the obligor's employer or source of income. (Washington state has implemented a scaled-down version of this W-4 reporting system and found a return of \$22 for every \$1 spent.)
- **Medical support orders/ERISA.** So that more children may get access to the noncustodial parent's health insurance through medical support orders, the Employer Retirement Income Security Act (ERISA) needs to be amended to change the provisions which override state laws and often allow employers that self-insure to exclude from coverage dependents who do not reside with the employee, were born out of wedlock, or are not claimed as dependents on the employee's federal income tax return.
- **Increased resources are needed to hire more staff and for staff training.** The Commission highlighted numerous problems with the staffing and training of the IV-D system which serve as serious barriers to efficient and prompt enforcement overall, but especially in interstate cases. Staff caseloads were often as large as 1,000, turnover was high, and many staff lacked basic knowledge of the various remedies available. "Even if all the necessary legislative reforms are enacted, collections will not significantly improve unless states devote adequate resources to implement these (staff related) reforms" (Interstate Commission, 1992, p. xxx). It recommended that the Secretary of DHHS conduct a staffing study, that states be required to implement the recommended caseload, and that increased federal and state resources be committed to staff training.
- In addition, the Commission made detailed recommendations for a new law called the **Uniform Interstate Family Support Act (UIFSA)** to replace URESA. This new Act was drafted and approved by the National Conference of Commissioners on Uniform State Laws.
- The Commission carefully considered whether the issues of **visitation and payment of support** should be legally linked, as some groups are strongly recommending they should. It came to the conclusion that they should not. "Nonpayment of support should not be a valid defense to visitation denial. Similarly, visitation interference should not be a valid defense to nonpayment of child support" (Interstate Commission, 1992, p. xii). Although studies show the correlation between visiting and payment of support, it is not possible to determine the direction of causality or whether the association does not reflect some other unmeasured factor such as degree of commitment to the child.
- **Federalization.** The Commission also considered and rejected proposals for increased federalization of some, or most, of the key components of the child support establishment and enforcement system presently performed by the states. (See pp. 24-26 below for discussion.)

The Child Support Conundrum. The twin goals of child support---to promote justice through making noncustodial parents fulfill their financial obligations and to protect children and custodial parents from suffering economically---can never be totally achieved. However, the nation is learning to appreciate that many complex hurdles stand in the way of achieving these goals.

Moreover, the fundamental problem remains that even if the system worked perfectly, because of economies of scale, when parents split (or when marriage does not occur) it is more costly to maintain two households than one. Living standards must be lower than if they remained together (or got married) unless work effort for either parent increases (Lerman, 1993). In addition, the noncustodial parent often remarries and becomes responsible for the support of another family.

However, most of the evidence and experience to date suggests that changes already underway and the improvements being proposed can help to improve the economic situation of the large majority of single-parent families and reduce the poverty and dependency of some.

Child Support Assurance

(Sources: Ellwood, 1988 and 1992; Garfinkel, July 1992, and in press; Garfinkel, McLanahan, and Robins, eds., 1992)

Even with greatly improved child support enforcement, many single parents and their children will still need additional income support. For many, child support is intermittent and unreliable. And there will still be cases where the noncustodial parent has low or no earnings and little or no child support can be collected. Even if they work, some mothers will still fall short of the income they must have to care for their children. Welfare assistance is increasingly unacceptable to mothers themselves and to the public as an alternative. As Ellwood wrote in 1988, "Our welfare/support system sometimes seems to be the worst of all worlds. It antagonizes, stigmatizes, isolates, and humiliates. It discourages work rather than reinforcing and supporting it...It offers only two real options: work all the time or be on welfare" (Ellwood, 1988, p. 137). A better alternative, Ellwood says, is that of a minimum assured benefit for each child that single mothers would receive from the government if their child support payment from the father fell short of that amount or never came.

Child support assurance is a new idea. Conceived and shaped in Wisconsin by a unique collaboration of academics and government officials, it is capturing broad and enthusiastic support. However, it remains to be tested in the field. Its underlying philosophy and basic design components have been well articulated in several Institute for Research on Poverty publications by its leading Wisconsin proponents, most notably Irwin Garfinkle, and by others such as David Ellwood (see references above).

The twin philosophical premises underlying the child support assurance system (CSAS) as proposed in Wisconsin are that "parents are responsible for sharing income with their children and that government, in turn, is responsible for ensuring that children living apart from one parent receive the share to which they are entitled" (Corbett, p. 32). The CSAS has three essential components, referred to by Garfinkle as a three-legged stool:

- (1) Child support guidelines;
- (2) Routine income withholding; and
- (3) An assured child support benefit.

The benefit levels often suggested are \$2,000 for the first child, an additional \$1,000 each for the second and third child, and an additional \$500 each for additional children. Reflecting a growing

awareness of the importance of paternity establishment, Garfinkle recently added a fourth leg to the stool:

- (4) Routine paternity establishment at birth so that support awards can be established for all cases.

The introduction to the recent book, *Child Support Assurance*, outlines the thinking behind the plan as follows:

"CSAS was patterned after Survivor's Insurance. Like Survivor's Insurance, Child Support Assurance aids children of all income classes who suffer an income loss due to the absence of a parent. The cause of the absence differs of course. Survivors' Insurance compensates for the loss of widowhood. Child support assurance compensates for the loss arising from divorce, separation, and nonmarriage. The percentage of income standard in conjunction with routine income withholding (the other two legs of the stool) makes the bulk of the financing of Child Support Assurance similar to proportional payroll tax, which is used to finance all of our social insurance programs. In the Child Support Assurance case, however, the "tax" applies only to those who are legally liable for child support. The assured benefit component of Child Support Assurance makes the benefit structure of the system like all our social insurance programs in that it provides greater benefits to low-income families than are justified on the basis of the family's contributions or taxes" (Garfinkle, McLanahan, and Robins, 1992, p. 5).

Ellwood explains further that the insured benefit is a crucial tool in an antipoverty strategy. Without it, child support enforcement reform will mainly benefit upper-middle and middle class single mothers. Middle class women would be able to support themselves with a combination of work and child support. But working class women, who receive little or no support, would be left only with welfare (Ellwood, 1992, p. 10).

Other benefits of the plan outlined by its proponents are that since the benefit would only be available to those with an award, there would be strong incentives for the mothers to get an award established. The guaranteed benefit would mean that custodial parents gain a stable income source, improving their ability to plan. Garfinkle makes an additional point that, in terms of financing, current child support payments collected in most states primarily benefit middle class and wealthy taxpayers through enabling reductions in welfare costs. The CSAS program, on the other hand, proposes to reinvest the child support receipts in improving the lives of poor children (Garfinkel, 1992).

CSAS Costs and Benefits. The Wisconsin researchers have conducted some estimates of the economic costs and benefits of a national CSAS system based on different assumptions about the effectiveness of enforcement. With the benefits outlined above (\$2,000 for the first child, etc.), and based on the assumption that collections do not improve above present levels, they estimate that CSAS will cost the nation \$1.7 billion per year. On the other hand, if the collection system works perfectly---awards in 100% of cases, award levels according to the Wisconsin percentage of income standards, and full payment of all awards---the CSAS would actually save \$2.1 billion because of reduced welfare expenditures. With a medium-range improvement in child support collection a CSAS would save \$.5 billion (Meyer, *et al.*, 1992).

Although some have called the assured benefit welfare by another name, there are two important differences in the CSAS plan as designed by its Wisconsin adherents. First, the assured benefit avoids the disincentives to work inherent in AFDC---the assured support benefit is not reduced when the mother begins to work as welfare benefits are reduced, dollar for dollar. (However, it is not clear what the labor supply effects of the assured benefit would be on nonwelfare mothers, it might permit them to reduce their work hours.) Moreover, since the support benefit is deducted dollar for dollar from the welfare benefit, there are strong incentives for the mother to work (and

no incentives to have more children). Third, since the assured benefit is not means tested, it avoids the constant verification of income procedures and other aspects of welfare receipt that are so stigmatizing.

Other analysts, however, have raised questions about possible unintended and negative consequences built into the CSAS plan that have not received sufficient attention. For example, Lerman points out in a forthcoming article that the potential effects of child support assurance are complex and unsure and some may be negative (Lerman, 1993). For example, knowing that one's child will receive an assured benefit whether one pays support or not reduces the incentive for noncustodial parents to make official payments. In addition, the incentives for the parents to collude in under the table payments, which presently exists in the AFDC program, would simply cover more people. CSAS also reduces the incentive for custodial parents to cooperate in pursuing payments (once an award is set). The guarantee of an assured benefit may cause some custodial mothers to cooperate less with visitation requirements.

CSAS background

The Child Support Assurance System as a full-blown plan grew out of a decade of study and discussion between scholars at the Institute for Research on Poverty, University of Wisconsin-Madison and officials in the Wisconsin state government. It was initially conceived as part of a broad reform package to aid the poor in Wisconsin developed by the Welfare Reform Advisory Committee in 1989, and was approved by the Governor. Wage withholding was piloted in ten counties in 1984. Then, after a lengthy process of planning and negotiations, several critical components of the plan were finally implemented statewide in 1987, including the use of immediate income withholding and the percentage of income standard for awards which was made presumptive. An agreement with the legislature to mount pilot demonstrations of the assured benefit in ten counties was followed by legislation passed in the U.S. Congress to grant a waiver to enable the use of AFDC matching funds to finance the assured benefit.

But in the complicated, tortuous story that followed over the next several years, politics intervened initially to slow, scale down, and then stall implementation of this plan (see Corbett, 1992). Finally, the plan died for lack of support from the new Governor, even though many in the outside world believed the demonstration had been launched as planned and announced in 1989.

However, as Corbett notes, CSAS had by this time become public property. In its final report, *Beyond Rhetoric*, the National Commission on Children recommended that "a demonstration of suitable scale be designed and implemented to test an insured child support plan that would combine enhanced child support enforcement with a government-insured benefit when absent parents do not meet their support obligations" (NCC, 1991, p. 98). The Commission on Interstate Child Support was also impressed with the concept. It believed that the many questions about its design and effects required that the federal government should first fund demonstrations in states to determine the feasibility and utility of a child support assurance program before CSAS would be adopted nationwide. The Ad Hoc Committee to Improve Child Support, a broadly representative group of advocates and child support officials, strongly supports adoption of a nationwide child support assurance program (Ad Hoc Committee, 1992).

The discussion and controversy at this point seems to focus on key design and implementation issues rather than a debate about goals of the program. The Wisconsin CSAS model has become a starting point for discussion of many variations on the basic concept. Some of the design questions that need to be discussed and tested are: Who should be eligible for the assured benefit? Should it be restricted only to single parents with awards? To those who remain single and do not marry/remarry? To those with low income? To those on welfare? Should the benefit be subject to income taxes? How much of the benefit should the AFDC mother be able to keep without affecting

her welfare benefit? Answers to these questions will clearly affect the costs of implementing any plan.

New York State Child Assistance Program

(Source: Bane, 1992; Hamilton, *et al.*, 1992)

A demonstration of a substantially modified child support assurance program is underway in seven counties in New York, known as the Child Assistance Program. The plan grew out of the findings and recommendations of a Task Force on Poverty and Welfare which was set up in 1986 by Governor Mario Cuomo. It was conceived and developed by the New York State Department of Social Services and approved by the U.S. Departments of Agriculture and Health and Human Services. State legislation establishing the Child Assistance Program (CAP) was passed in 1987, and a special provision to the OBRA Act of 1987 cleared the way for the necessary federal waivers. The program began in 1988.

The goal of the program is to help raise children in single-parent families from poverty and welfare dependence. However, the program differs in several important respects from the Wisconsin CSAS model.

Enrollment in CAP is limited to custodial parents (and their children) who are eligible to receive AFDC and contingent on a child support award being in place for each child. The CAP benefit is based on the number of children, with benefits initially set at \$3,000 for the first child and \$1,000 for each additional child. The CAP benefit is an alternative to the welfare benefit. While employment is not a categorical requirement, the benefit structure is such that the CAP grant will exceed the welfare grant only when the family has earnings. Unlike welfare it is not reduced dollar for dollar upon receipt of earnings. However, the CAP benefit is gradually reduced at a rate such that families may achieve an income as high as 150% of poverty before benefits phase out entirely.

Additional features include allowing families to accumulate assets (such as a car) and assuring health care coverage through Medicaid for up to one year after leaving CAP. Child care subsidies are also available. Also, participants receive their Food Stamp benefits in cash rather than coupons. The program has offices in sites separate from the welfare offices. Case managers who combine the functions of eligibility and planning for self-sufficiency are a key component. They carry caseloads of around 60 participants.

The CAP demonstration, authorized to operate through March 1994, operates in two different modes. In three counties the program is being conducted as a controlled experiment. Participants are randomly selected and provided with information about the program and offered the choice of enrolling in it. In the remaining four counties the program is open to all eligible participants, permitting community-wide information to be disseminated (called saturation counties).

CAP is being evaluated by Abt Associates, whose interim impact report focusing on the three experimental counties was published in June 1992. The report found many positive impacts for CAP participants in the first year. There were some significant gains in employment and earnings in two of the counties and in new support awards. The CAP program generated a modest increase in the clients' total family income. However, not surprisingly, few clients left public assistance during the period. The report concludes that "the key question is whether CAP's short-term effects will translate into long-term gains in family income and reduced dependency on public assistance" (Hamilton, *et al.*, 1992, p. xiii).

Mary Jo Bane, the New York Commissioner of Social Service, concluded in recent congressional testimony that CAP is helping make families better off financially, and getting them out of poverty, without spending any more money on benefit programs (Bane, 1992).

Georgia Child Support Simplification Waiver Program

While no other state is conducting a broad demonstration of even a modified CSAS program, the state Office of Child Support Recovery in Georgia is launching an interesting new approach to child support payment which avoids some of the disincentives in the present system. It has received a three-year waiver from the federal government to distribute the entire amount of the child support payment directly to the family. This money is then counted as income toward welfare eligibility and, in many, cases brings about a reduction in the welfare check. "Simply put, this effort reduces welfare to a 'supplement' to child support...the father knows he supports his children by his child support payments, and hopefully takes some pride in this fact. While he may not have removed them from welfare, at least he has reduced the amount of welfare which must be paid to his children. Conversely, the family is no longer totally dependent upon welfare; welfare is as it should be, a last resort, or if you will, a "supplement" to the family resources" (Townsend, 1992).

The Georgia demonstration is testing the hypotheses that this method of payment will be administratively simpler and cost effective (eliminating the need to process a \$50 disregard); that parents will be more willing to pay child support; that welfare dependency will be reduced; and that this simplified system will enable the IV-D agency to concentrate more of its efforts on its core functions.

The Child Support Reform Debate: What should be the federal role?

Two overarching questions regarding the role of the federal government are likely to dominate the discussions about child support reform over the next year or so. The first question is whether to move now to implement a child support enforcement and assurance plan nationally, as proposed in the Downey/Hyde Initiative or whether to proceed more cautiously with state demonstrations first, as is already happening in New York and proposed in Senator Dodd's bill (see below). Although many advocates are supporting the idea of moving towards national implementation, more policymakers and experts seem strongly inclined to test the new component of an assured benefit at state and local levels. Indeed, that was the recommendation of both the National Commission on Children and the Commission on Interstate Child Support.

The second major question is whether increased federalization of any or most of the components of the child support enforcement system is essential to its success.

The Wisconsin proponents of CSAS did not include federalization of any components of the program in their development of the model. David Ellwood admits that Child Support Assurance can be put in place state by state. But in his view a more effective system would be national, making CSAS a federally insured support benefit. This would also require federalization of at least the collection and disbursement of support payments as proposed in the Downey/Hyde initiative (Legler and Ellwood, April 1992), and possibly federalizing paternity establishment as well. He argues that nationalization of the assured benefit and federalization of some components of enforcement are critically linked. Ellwood believes the other strongest argument for federalization is the urgent need to improve interstate enforcement.

Ellwood and his colleague Paul Legler have been studying the complexities of administering various aspects of child support reform in a project at Harvard's Kennedy School entitled, "Innovative Non-Welfare Approaches to Social Policy." In an extended discussion of the merits of federalization, although they admit that there are numerous difficulties involved in transferring the collection functions to the IRS---indeed, they say it would be a formidable task---on balance they believe "the scales tip towards a federalized collection system" (Legler and Ellwood, September 1992, p. 98).

Over the past few months, the arguments for and against federalization have been much discussed and debated. One major group of advocates, the Ad Hoc Committee To Improve Child Support, is a strong proponent, as represented in testimony by one of its leaders, Paula Roberts of the Center for Law and Social Policy, at the July 1992 congressional hearing (Roberts, July 1992; Ad Hoc Committee, 1992).

On the other hand, at this same hearing, among several who opposed federalization, Michael Henry, president of the National Child Support Enforcement Association, the organization representing the child support enforcement officials, testified against the transfer to the federal government of the collection and distribution of child support payments (Henry, 1992). And Massachusetts, where the Department of Revenue is the IV-D office, also opposes federalization. Importantly, while arguing for greater uniformity in state policies and practices, and for a much strengthened federal role, the majority of the members of the Interstate Commission were "not convinced that the federal government could do a better job than states in establishing and enforcing support" (Interstate Commission, 1992, p. xiii). And the American Public Welfare Association is supporting the Commission's view.

Since federalization is likely to be one of the major issues to be debated in the discussion about child support reform over the next year or two, we summarize briefly here some of the arguments being used on both sides. (In addition, there are numerous technical issues about how federal collection and benefit/payment disbursement would be implemented which will not be discussed here.) However, it is important to remember that the federal government is already deeply involved in many aspects of child support enforcement. In addition, there is a general consensus that improving the performance of the system, even within the present framework, will require an increasing number of federal remedies and resources. The debate thus centers on whether major tasks and functions of the system that are presently the responsibility of state government should be transferred to the federal government.

Arguments For Federalization of Collection and Disbursement of Support/Benefit Payments

(Sources: Ad Hoc Committee, 1992; Commission for Interstate Child Support, 1992; Legler and Ellwood, Sept. 1992)

Basically, proponents of federalization believe that the complexities, fragmentation, and existing inefficiencies of the multi-layered, 50-state child support system constitute such insurmountable barriers that they will prevent the successful accomplishment of the state-based reforms that are presently underway or being proposed. They believe that federalization will lead to greater efficiencies, cut overall costs, and are essential for effective reform. Another strong argument is that federalization of benefit payments will coordinate with existing or any new family tax relief payments. Among the specific points that have been made are:

---In general, federalization of any aspect of the reform will lead to greater uniformity of law and procedure among states.

---Collection through the IRS, which is already set up on a national basis to collect taxes and disburse refunds, will greatly reduce the problem of interstate collection and improve collections overall.

---Use of the IRS's national high volume payment processing would facilitate the use of advanced technology. The IRS also would lead to instant access to federal data bases, facilitating various aspects of enforcement at local levels.

---Enforcement may be taken more seriously, and less emotionally, by parents when it is viewed as taxes owed rather than child support.

---The IRS has a larger and more powerful arsenal of enforcement tools than states.

---If an assured support benefit plan is adopted, payment through a central federal agency such as a new office within the Social Security Administration would assure uniformity throughout the country.

---Payment of an insured benefit could also be coordinated with a monthly payment of the earned income tax credit and with any proposed refundable tax credit, if enacted.

Arguments against federalization

(Sources: Adams, 1992; Henry, 1992; Legler and Ellwood, September 1992; U.S. Interstate Commission on Child Support, 1992)

In general, those who oppose federalization believe that the reforms underway will eventually accomplish a great deal and need to be given time to be fully implemented. If states were given the resources and enforcement tools currently being proposed for federal agencies, they could do a better job than the federal government ever could. In addition, the special complexities of the child support process and procedures require that they be dealt with by authorities with experience and knowledge of local resources and the economic environment. They also believe that the enormous costs and complexities of transferring functions, knowledge, and experience to the federal government are simply not worth it and will cause many additional new problems. Specific arguments are:

---Using the IRS would involve replacing state bureaucracies with considerable experience in child support with another bureaucracy that has no experience. The IRS already has considerable difficulty successfully collecting income taxes from large segments of the population, it is unclear why it will succeed any better with child support.

---The IRS already has support enforcement responsibility through federal income tax refund intercept and the IRS Full Collection. In the past, the IRS has opposed any effort to expand its child support enforcement responsibility.

---Federal centralization will certainly stifle the creativity that has been much in evidence in recent years at state level. Virtually every effective new idea currently being tested or proposed was conceived in the states.

---Most of the information needed to locate a parent and determine income resides in the private sector and is maintained by local agencies such as the Department of Motor Vehicles and State Employment Security Agencies (often stacked in basements and office files). State and local child support and judicial agencies are in a better position to access this information and to coordinate with each other than federal agencies.

---Income withholding does not work in many cases, and thus federal collection will not automatically improve results for the self-employed or under-employed.

---Federalization involving transferring responsibilities to the IRS and the Social Security Administration will simply add another layer to the fragmentation and divided responsibility that already plagues the system.

---Many aspects of the system require frequent direct contact with the consumers who already complain about impersonal service by local and state agencies, and adjudicating disputes between parties. It is unclear how federalization would improve customer service.

---Massachusetts successfully transferred collections to the state Department of Revenue which proves that federalization is not necessary for effective use of tax and employment data. The Massachusetts experience also showed how long it takes to transfer functions and train the new personnel, and how costly it can be. These costs in time and money would be greatly magnified in federalization and could expect to take a decade (Adams, 1992).

---Involvement of the IRS, which is publicly viewed as antagonistic and punitive, will not facilitate the kind of voluntary compliance and cooperation that is essential for the reforms to succeed with large segments of the child support population.

EXAMPLES OF RECENT LEGISLATIVE REFORM PROPOSALS

S. 2237, The Family Income Security Act of 1991

Background. S. 2237, The Family Income Security Act of 1991, was drafted primarily in response to recommendations made by the National Commission on Children. It was introduced to amend the Internal Revenue Code of 1986 on February 20, 1992, by Senator Rockefeller who chaired the Commission. The bill would provide a refundable tax credit and an increase to the earned income tax credit to larger families. It also would provide a demonstration program related to the enforcement of child support payments, and encourage job creation for low-income unemployed. S. 2237 was referred to the Senate Finance Committee and no hearings were held on the bill. (No additional cosponsors.)

Title I. Refundable Credit for Children. Title I would allow an \$1,000 refundable tax credit per child in an eligible family. Adjustments to the dollar amount based on inflation would be implemented prior to refunding the credit. In certain cases it would be possible for advance payments to be made. Conditions would be enforced such as ensuring that only one of a child's two parents is receiving the credit.

Exemptions will be set at zero for "any qualifying child" allowed the credit. Not more than one year following the enactment of S. 2237, a taxpayer awareness program would be in place to inform the public of the child credit availability, as well as the earned income tax credit.

Title II. Earned Income Tax Credit Increased for Larger Families. This title would add a new benefit level for families of three or more qualifying children. It also would not take into account the amount paid by a taxpayer for medical insurance in figuring the payer's deduction eligibility.

Title III. Child Support Assurance Demonstration Projects. Between four and six states would be awarded grants to implement a program ensuring a minimum level of child support for those custodial parents and children for whom a child support order has been obtained or any child whose custodial parent meets "good cause" criteria for not seeking or enforcing a support order.

In selecting the state demonstration projects, certain factors such as geographic location, size, and economic situations will be considered and priority will be given to states which demonstrate that efforts will be made to link child support with other service systems, provide intensive integrated

social services for low-income participants, emphasize interstate establishment, and contain large urban areas.

States will be required to report on the successes and experiences of the demonstration projects. Generally, demonstrations would be expected to last for 3 consecutive years.

With regard to certain means-tested programs such as the Food Stamp Act and the U.S. Housing Act, payments made to a child or individuals for child support will not count as income until the child support award level has been lifted.

Title IV. Community Employment Opportunity Demonstration Projects. This Title provides for the Department of Labor and the Department of Health and Human Services to fund demonstration employment projects in particularly economically depressed communities based on the community's unemployment rate, its poverty rate, and other factors to assist parents to make the transition from welfare dependence. Each community project must guarantee that appropriate child care and other work-related expenses are provided to enrollees.

S. 2343, The Child Support Assurance Act of 1992

Background. The Senate Subcommittee on Children, Families, Drugs and Alcoholism began the 102nd Congress with a series of hearings on the status of the American family and policies to strengthen families. One of the clearest messages from those hearings was the severe economic circumstances of children in single-parent families. More than half of all American children who live in poverty live in single, female-headed families.

S. 2343, The Child Support Assurance Act of 1992, was introduced by Senator Dodd on March 11, 1992. The bill was referred to the Committee on Labor and Human Resources, and one hearing was held on the bill. No other action was taken and there are no additional cosponsors. (S. 2343 was introduced previously as part of the Middle Income Tax Relief and Family Preservation Act of 1991.)

Provisions. This proposal will: (1) create incentives for states to improve enforcement, for noncustodial parents to comply with their child support obligations, and for custodial parents to seek child support orders; and (2) guarantee a minimum level of support for all children not living with both parents.

---Authorizes demonstration grants to 6 states for use in guaranteeing an "assured child support benefit" of \$3,000 for the first child in a household, and \$1,000 for each additional child. If a child is receiving some child support, the assured benefit will make up the difference until the child receives \$3,000.

---Requires stronger state enforcement of child support obligations. To participate, the state must already be doing a good job of child support enforcement, and must show improvement during the grant period. The state must be at or above the national median for paternity establishment. During the grant, the state must improve paternity establishment, child support orders, and collections by four percent annually.

---To be eligible, the custodial parent must have a child support award or be seeking one, or have a good cause reason not to have one (for example, family violence). This creates an incentive for more custodial parents to seek awards.

---To deal with the underlying problem of noncustodial parents who cannot meet their child support obligations because they aren't earning enough, priority in job training programs will be given to those individuals.

---The states and HHS will conduct 3- and 5-year evaluations of those demonstration programs in order to determine whether the approach should be extended nationally.

The Downey-Hyde Child Support Enforcement and Assurance Proposal

The Downey-Hyde Child Support Enforcement and Assurance Proposal was introduced by Representatives Downey and Hyde in the summer of 1992. Hearings have been held on the proposal, but legislation has not yet been introduced.

The child support proposal has the following goals:

- Strengthening the American family
- Promoting parental responsibility
- Reducing child poverty
- Promoting self-sufficiency
- Increasing requirements and incentives to work
- Reducing welfare costs and the number of welfare recipients

Several aspects of the child support system would require extensive enhancement in order for these goals to be achieved. The Downey-Hyde proposal calls for:

- (i) State establishment of paternity for every newborn child and support orders for every child who does not reside with both natural parents.
- (ii) Federal guidelines would be used to establish the levels of support awards which would be subject to periodic review. All child support orders must include provisions to assure health insurance coverage.
- (iii) Federalization of the collection and enforcement of child support awards, with a new mechanism for routine withholding of child support obligations from wages and the implementation of stiffer penalties for nonpayment.
- (iv) Monthly assured child support benefits would be paid by a new federal agency for any child where noncustodial parent's payments were less than a preestablished minimum benefit.
- (v) Enrollment in JOBS or public service employment programs to allow noncustodial parents who are unable to make support payments the means to do so.

As a result of these changes, the income of custodial parents is expected to substantially increase.

Administration: Office of Child Support Enforcement and Assurance

This new federal office would be established in both the IRS and the Social Security Administration (SSA) to carry out specific joint responsibilities, but each responsibility would be assigned primarily to one of the two agencies.

These responsibilities would include the following:

- National child support guidelines (SSA)
- Registering support obligations (IRS)
- Update of awards every two years (SSA)
- Collection and enforcement of payments (IRS)
- Monthly check to custodial parent (SSA) (supplemented by assured minimum when necessary)
- Administration of advance payments of EITC and refundable child tax credits when applied for by noncustodial parent (SSA)
- Coordination with state AFDC programs and other government programs (SSA)

The Downey-Hyde proposal specifically details the methods by which paternity should be established, building on the best practices of states like Washington and Virginia. The federalization of child support would not eliminate states' responsibilities in terms of paternity establishment or the issuance of support orders.

States would also be required to assist the federal government with providing and administering education services affiliated with JOBS and similar programs in order to ensure that nonpaying, noncustodial parents are given the opportunity to meet their child support obligations.

In summary, the Downey-Hyde proposal seeks to increase paternity establishment, federalize the collection of child support awards, provide public service jobs to noncustodial parents who are unable to pay, and create a minimum assured child support payment where collection is not possible despite efforts in all of the areas mentioned above.

H.R. 2242, The Working Family Tax Relief Act of 1991

H.R. 2242, The Working Family Tax Relief Act of 1991, was introduced by Representative Downey on May 7, 1991, and referred to the Committee on Ways and Means. The bill would amend the Internal Revenue Code of 1986 to provide tax relief for families with a refundable tax credit in lieu of personal exemptions for children. It also would increase the EITC. (Original cosponsors were Congressmen Miller, Obey, Stark, and De Lugo.)

Provisions of H.R. 2242

Title I. Refundable Credit for Children

A tax credit of \$800 multiplied by the number of qualified personal exemptions (as defined in the bill) of the taxpayer for the taxable year will be allowed per year per person. Limitations are placed on the amount of allowable credit, based on the individual's receipts from other exemptions and earned income. Adjustments to inflation are made as well.

Title II. Changes in Individual Income Tax Structures

H.R. 2242 changes the tax rate structure and increases the tax imposed on married individuals filing joint returns and surviving spouses based on the amount of their taxable income. A tax increase also is imposed on heads of households, unmarried individuals, married individuals filing separate returns, estates, and trusts, and on higher-income individuals based on different income levels. Additional surtaxes would be imposed on higher-income individuals as well as an increase to the individual alternative minimum tax. The bill repeals the limitation on itemized deductions and phases out personal exemptions.

Title III. Increased Earned Income Credit

Eligible individuals shall be allowed a tax credit based on a percentage of the individual's earned income. Limitations on this credit would be imposed using certain credit percentages, and be adjusted to gross income for the taxable year.

In calculating the amount paid to a taxpayer as a deduction, what the taxpayer pays for insurance will not be taken into account.

Title IV. Advance Payments from Secretary of the Treasury of Earned Income Credit and Credit for Children.

Eligible taxpayers, if they so elect, will receive advanced payments for the earned income credit and credit for children. These payments shall be a percentage of the Secretary's overall estimate for the individual and will be distributed quarterly. H.R. 2242 includes specifics regarding potential adjustments to the Secretary's original estimate and other changes in payment.

In sum, H.R. 2242 would replace the personal exemption and provide an \$800 refundable tax credit per child. For many this would more than double the exemption for children. The EITC would also be expanded and more reflective of family size. The bill would be funded through a more progressive tax, as well as a surtax for high-income individuals. The alternative minimum tax rate would also be increased.

ORGANIZATIONAL RESOURCES

AMERICAN BAR ASSOCIATION CENTER ON CHILDREN AND THE LAW

The ABA Center on Children and the Law was founded by the ABA Young Lawyers Division in 1978. The Center's work focuses on improving the quality of life for children through advancements in law, justice, and public policy. The Center serves as a National Child Welfare Resource Center, funded by the U.S. Department of Health and Human Services. Child support is among the Center's areas of expertise, and it offers a training program on Interstate Child Support Remedies. The Center has several publications available concerning the issue of child support, including the "Child Support Reference Manual," and additional material which is available from the Office of Child Support Enforcement at DHHS.

Contact: Margaret Campbell Haynes, The ABA Center on Children and the Law, Young Lawyers Division, 1800 M Street NW, Washington, DC 20036. (202) 331-2250.

AMERICAN PUBLIC WELFARE ASSOCIATION

The American Public Welfare Association (APWA) was founded in 1930. It is a bipartisan organization, committed to developing and advocating effective public policies that improve the lives of low-income Americans. APWA represents the 50 state human service departments, including most IV-D Directors, local public welfare agencies, and individuals. The Association also provides professional and technical training to public welfare staff. APWA's work and research focuses on a wide range of issues, including child support, adolescent pregnancy, national health care reform, and employment security, among others. Two child support task forces are currently underway at APWA. The first is a task force on self-sufficiency, chaired by New York Commissioner of Social Services, Mary Jo Bane. This task force will release recommendations on child support enforcement and welfare reform in early 1993. A task force on the Downey-Hyde Child Support Enforcement and Assurance Proposal will soon be releasing a statement as well.

Contact: David Kass, American Public Welfare Association, 801 First Street NE, Suite 500, Washington, DC 20002. (202) 628-0100.

ASSOCIATION FOR CHILDREN FOR ENFORCEMENT OF SUPPORT

The Association for Children for Enforcement of Support (ACES) is the largest child support advocacy organization in the United States, with over 250 chapters in 48 states and over 25,000 members. ACES works towards improved child support enforcement to protect children from nonsupport, maintaining the belief that this will protect children from poverty as well. ACES promotes the federalization of child support and recommends that an agency such as the IRS be charged with implementing and enforcing national child support guidelines.

Contact: Geraldine Jensen, President, ACES National Headquarters, 723 Phillips Ave., Suite J, Toledo, OH 43612. (419) 476-2511.

CENTER FOR LAW AND SOCIAL POLICY

The Center for Law and Social Policy is a public interest law firm and legal advocacy organization, jointly funded by the Ford Foundation and the Foundation for Child Development. The Center provides training, technical assistance, legal counsel, and public education, and conducts policy analysis and research on a variety of policy issues for its network in the states. Two papers by Paula Roberts are forthcoming on the issue of child support: "An Idea Whose Time Has Come: Child Support Assurance," and "Paternity Establishment: An Issue for the 90s," to be published by the Clearinghouse Review.

Contact: Paula Roberts, Center for Law and Social Policy, 1616 P Street NW, Suite 350, Washington, DC 20036. (202) 328-5140.

CENTER ON BUDGET AND POLICY PRIORITIES

The Center on Budget and Policy Priorities was founded in 1981, and conducts research and analysis on public policies that effect low- and moderate-income Americans. The Center issues reports on a variety of poverty-related issues and serves as a source of information and analysis for policymakers, program managers, the media, social service providers, advocacy groups, and researchers at the federal, state, and local levels.

The Earned Income Tax Credit Campaign. The EITC is widely regarded as both "pro-work" and "pro-family" because only low-income workers who live with and support children are eligible. But many poor families do not know about it. Accordingly, the Center conducts a national outreach campaign to publicize the need for these families to file a federal tax return in order to claim their benefits. Hundreds of social service agencies, direct service providers, health clinics, legal assistance groups, religious organizations, unions, businesses, advocacy and community-based organizations, and state and local governments have joined the campaign. A number of Congressional offices have also used the campaign material to assist their constituents. The campaign, now in its fifth year, works cooperatively with the IRS and is currently completing its 1993 earned income tax credit kit, which is available from the Center.

Contact: Scott Barancik, Research Analyst, Center on Budget and Policy Priorities, 777 North Capitol Street NE, Suite 705, Washington, DC 20002. (202) 408-1080.

CHILDREN'S DEFENSE FUND

The Children's Defense Fund (CDF) is a nonprofit organization that exists to provide a strong and effective voice for the children of America. CDF pays particular attention to the needs of poor, minority, and handicapped children, and encourages preventive investment in children before they get sick, drop out of school, suffer family breakdown, or get into trouble with the law.

CDF focuses on programs and policies that affect large numbers of children rather than helping families on a case by case basis. CDF gathers data and disseminates information. It monitors the development and implementation of federal and state policies. And it provides information, technical assistance, and support to a network of state and local child advocates. Its main office is in Washington, DC, but CDF maintains state offices in Minnesota, Ohio, and Texas.

The CDF staff includes specialists in health, education, child welfare, mental health, child development, child support, adolescent pregnancy prevention, and youth employment. CDF has

been an active member of the Ad Hoc Committee for Child Support and has two forthcoming publications on the topics of paternity and child support.

Contact: Nancy Ebb, Children's Defense Fund, 23 E Street NW, Washington, DC 20001. 202-662-8787.

CHILDREN'S RIGHTS COUNCIL

The Children's Rights Council (CRC) is an educational and research organization dedicated to issues of family formation, family preservation, and making the divorce process less antagonistic. The underlying philosophy of CRC is based on the recognition that children are born with two parents and that children want, love, and need two parents. The Council seeks especially to assure that children have access to the economic, physical, and emotional support of both custodial and noncustodial parents. The membership of CRC is composed primarily of mental health and other professionals devoted to preserving strong families for the benefit of children. Founded in 1984, the Council is headquartered in Washington, DC, and has 22 chapters throughout the nation.

Contact: David Levy, President, 220 I Street NE, Suite 230, Washington, DC 20002. (202) 547-6227.

NATIONAL CHILD SUPPORT ADVOCACY COALITION

The National Child Support Advocacy Coalition (NCSAC) is a nonprofit educational organization dedicated to improving child support enforcement in the United States. Membership includes organizations, individuals, parents, and professionals, all who believe that a child's right to be supported by both parents should be enforced.

Contact: Betty Murphy, NCSAC, P.O. Box 420, Hendersonville, TN 37077-0420. (800) 846-2722.

NATIONAL CHILD SUPPORT ENFORCEMENT ASSOCIATION

The National Child Support Enforcement Association is a national, nonprofit membership organization devoted to promoting and protecting the well-being of children and their families through the effective enforcement of child support obligations. Membership includes child support enforcement agencies at federal, state, and local levels, as well as lawyers, judges, legislators, administrators, and private corporations. In addition to publishing *NCSEA News* on a regular basis, the Association conducts conferences, administers training, and produces a Conference Notebook.

Contact: Kathy Duggan, Executive Director, National Child Support Enforcement Association, 400 North Capitol Street, Suite 372, Washington, DC 20001. (202) 624-8180.

NATIONAL TRAINING CENTER, Office of Child Support Enforcement, DHHS

The National Training Center (formerly called the National Child Support Enforcement Reference Center) is a branch of the Division of Program Operations of the Office of Child Support Enforcement (OCSE) of the U.S. Department of Health and Human Services. It functions in part as a publications clearinghouse by responding to requests for publications related to the issue of child support. The OCSE contributes, at least in part, to all publications available from the

reference center. Publications are officially the work of DHHS, but many are produced in conjunction with individuals, agencies, and organizations working in the area of child support.

Contact: Rayetta Byrd, National Training Center, Office of Child Support Enforcement, 370 L'Enfant Promenade SW, Washington, DC 20447. (202) 401-9382.

NATIONAL WOMEN'S LAW CENTER

The National Women's Law Center serves as a national resource for those who are committed to advancing the status of women through the law. The Center began as the Women's Rights Project of the Center for Law and Social Policy and became independent in 1981.

The Center engages in litigation and advocacy, compliance monitoring, and assistance to advocates. It conducts technical, legal, and constitutional research, policy analysis, and public education, and publishes manuals, articles, and reports on many aspects of women's rights.

The major focus of the Center's work is on the following areas of central concern to women: child support enforcement, employment, education, child and adult dependent care, public assistance, tax reform, Social Security, reproductive rights, and health, with special attention in all of these areas to how poor women are effected. The Center continues to work on EITC legislation and its outreach campaign to the child care community continues with an upcoming seminar on child care tax credits.

Contact: Nancy Duff Campbell, Executive Director, National Women's Law Center, 1616 P Street NW, Washington, DC 20036. (202) 328-5160.

WOMEN'S LEGAL DEFENSE FUND

Formed in 1971 to increase opportunities for women, the Women's Legal Defense Fund (WLDF) works in Congress, the courts, the administrative branch of government, the states, at the grassroots level, and with the media to advance public policy for women and their families. WLDF advocates on behalf of women in areas such as employment discrimination, family and medical leave, quality health care, increased economic security, and the reform of the child support system. In the area of child support, WLDF is in the process of completing a state-by-state evaluation of child support systems in the United States. Titled the "Report Card," the study focuses on the success or lack of success in state guidelines and child support awards.

Contact: Diane Dodson, Women's Legal Defense Fund, 1875 Connecticut Avenue NW, Suite 710, Washington, DC 20009. (202) 986-2600.

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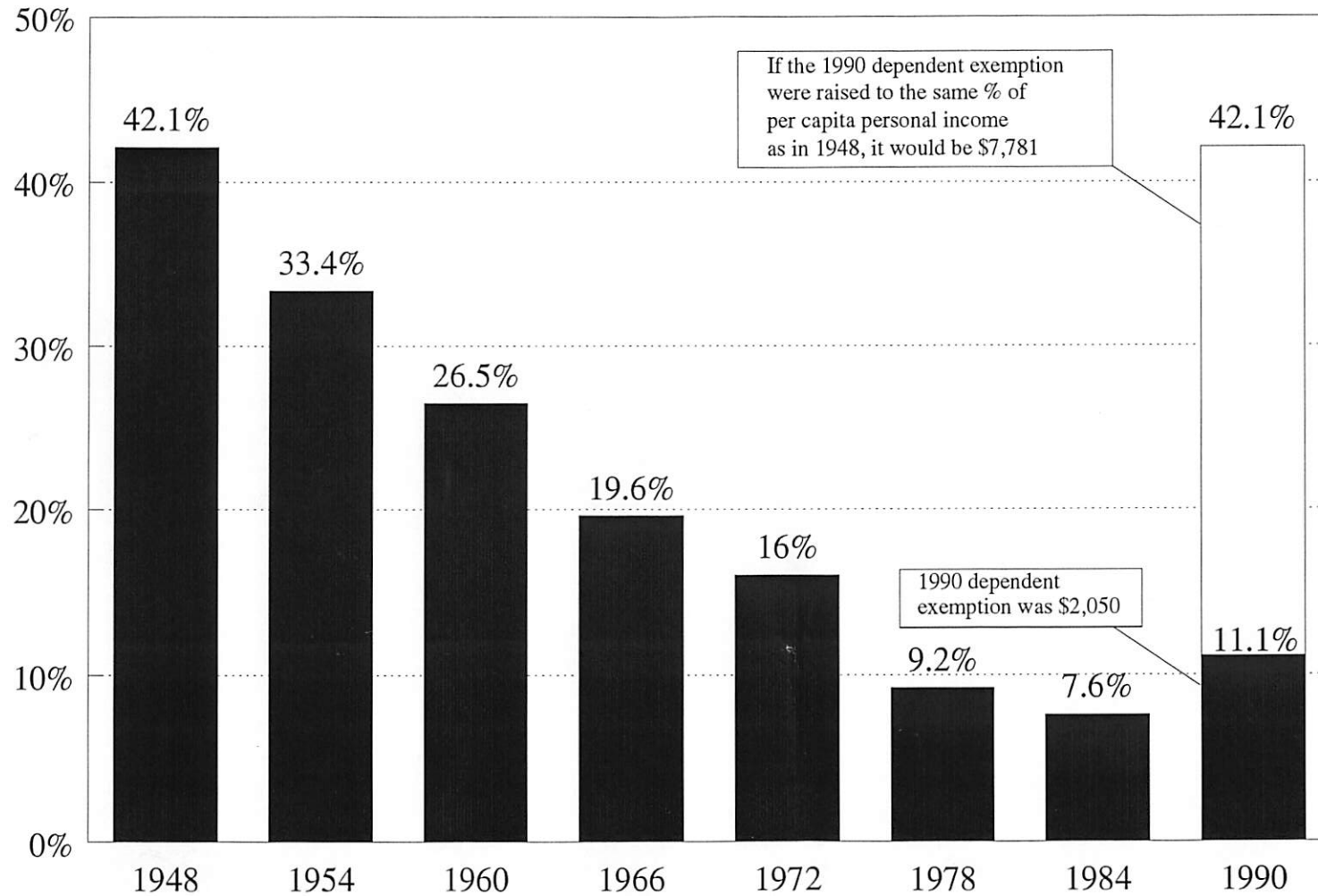
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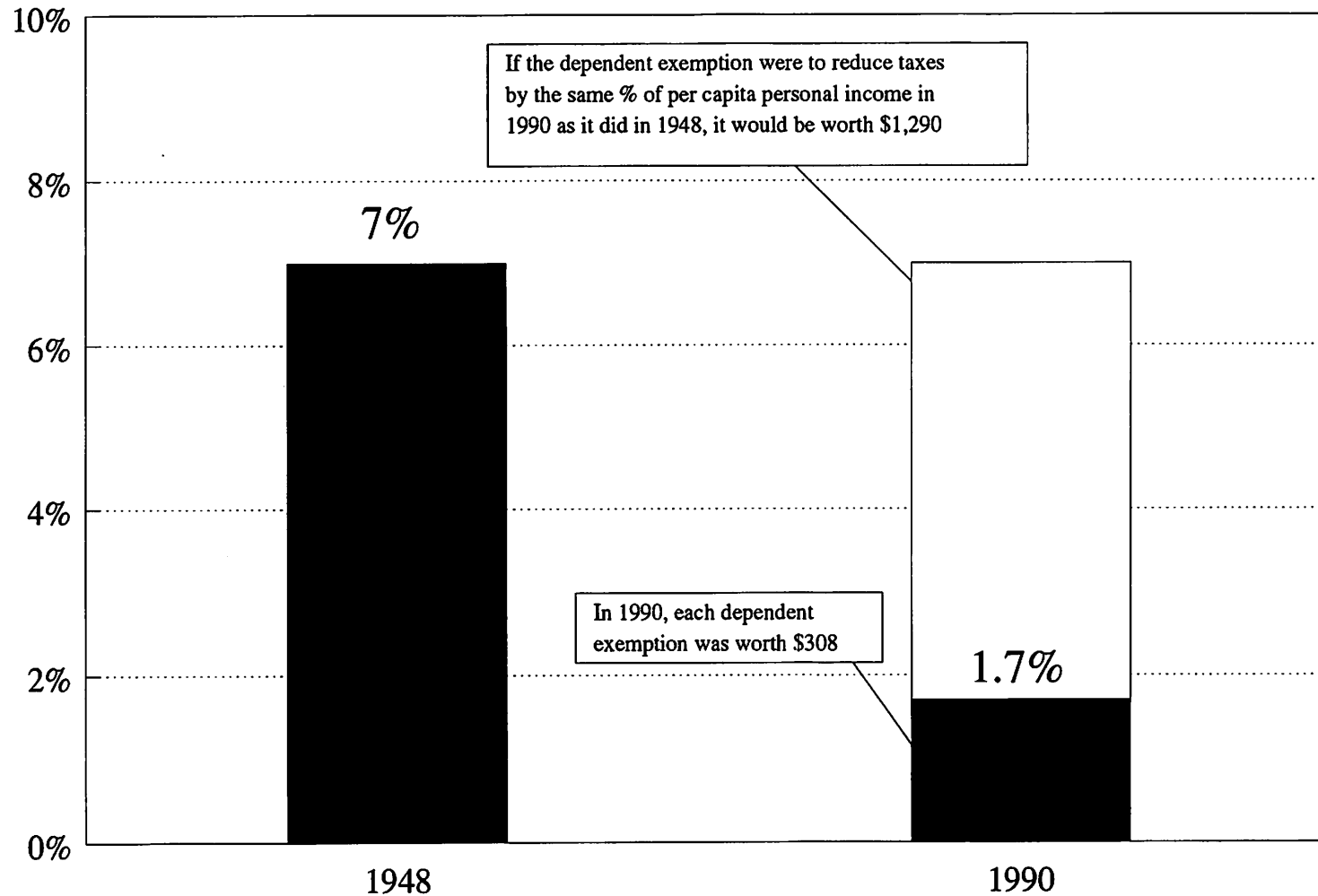
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Figure 1
Dependent Exemption as a Percent of
Per Capita Personal Income, 1948-1990



Source: Eugene Steuerle and Jason Juffras, The Urban Institute, Washington, D.C.

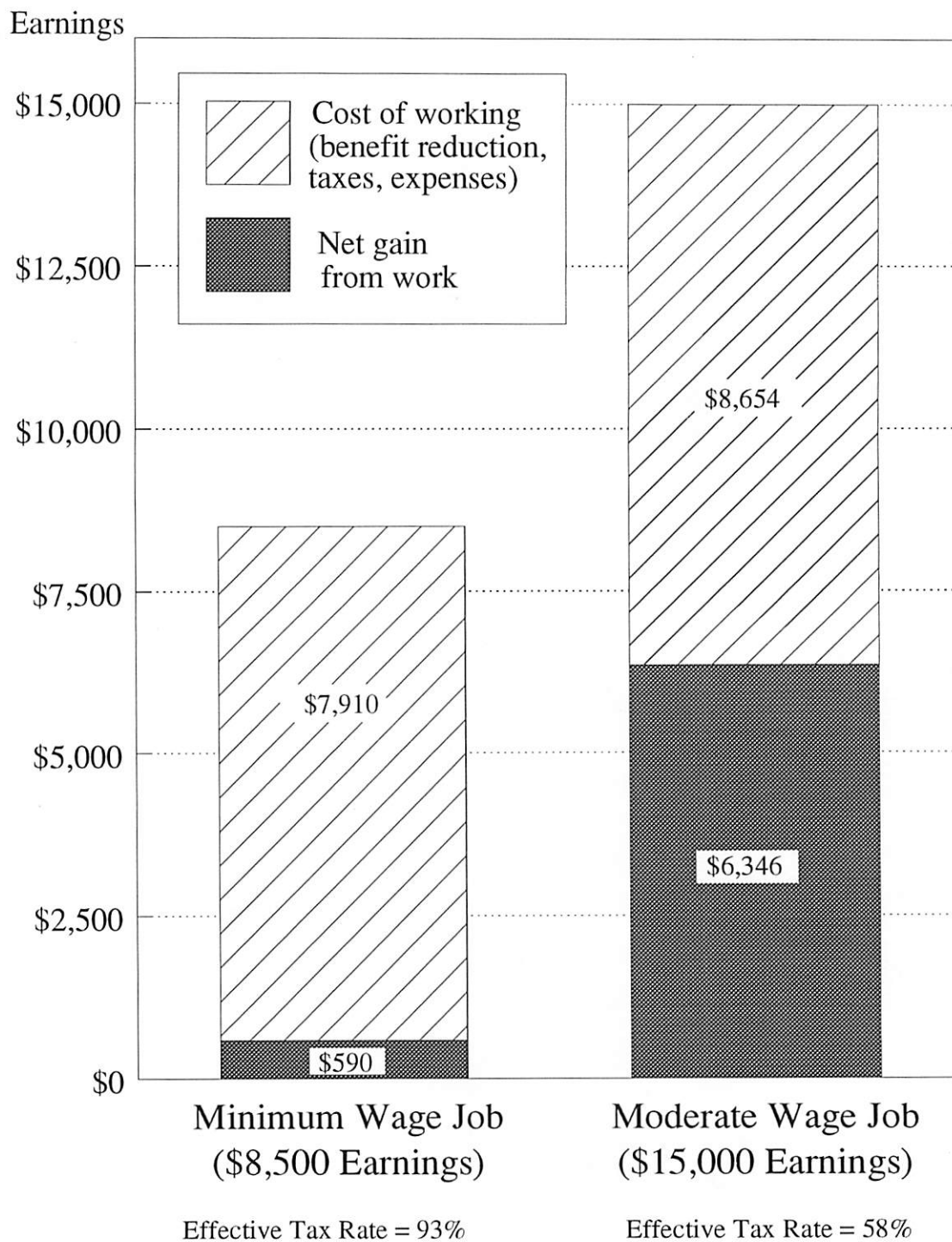
Figure 2
Amount of Tax Reduction Provided by Each Dependent
Exemption, as a Percent of Per Capita Personal Income
1948 & 1990 *



* Minimum amount of tax reduction for those with positive tax liability, i.e., the value of each exemption at the lowest positive tax rate (15% in 1990).
Source: Eugene Steuerle and Jason Juffras, The Urban Institute, Washington D.C.

FIGURE 3

Work Disincentive for a Single Parent on Welfare With Two Children



Source: Eugene Steuerle and Jason Juffras,
The Urban Institute, Washington, D.C.

Marriage Penalty for a Single Head of Household on Welfare and a Potential Spouse

Thousands of \$

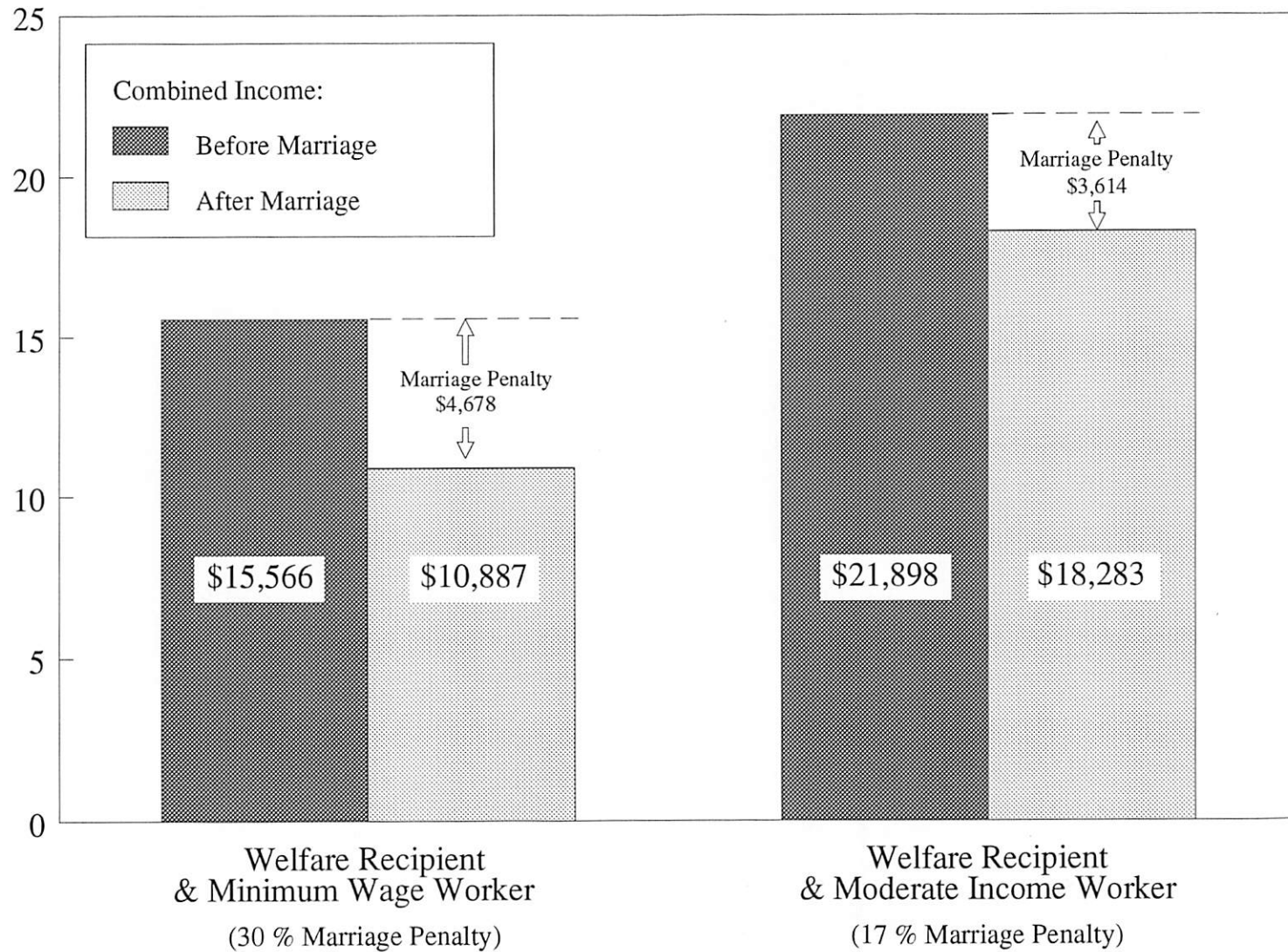
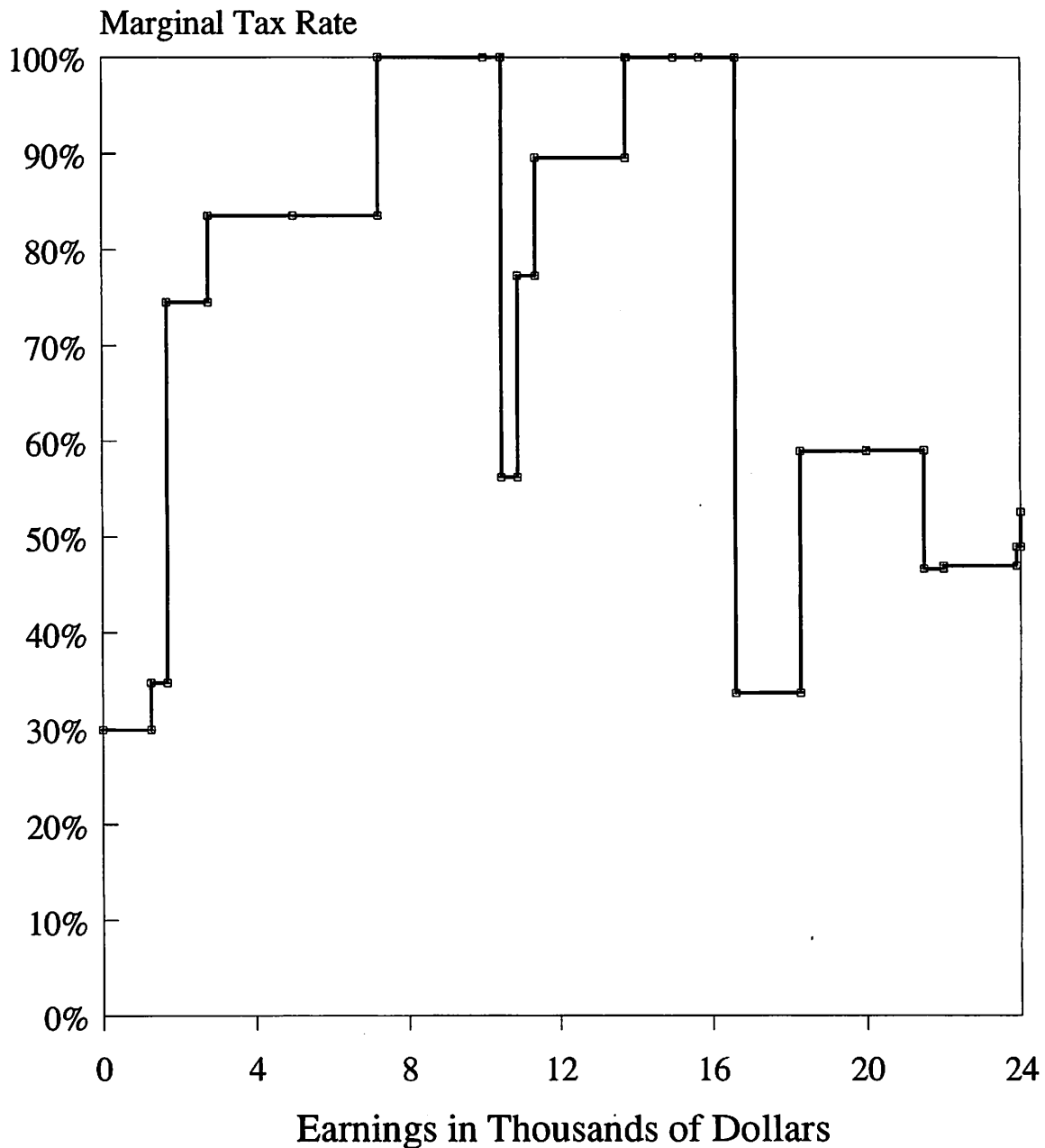


FIGURE 4

Source: Eugene Steuerle and Jason Juffras, The Urban Institute, Washington, D.C.

FIGURE 5

Effective Marginal Tax Rates* Single-Parent Family, Two Children (One Under Age 2), Minnesota, 1991



* Includes effects of all taxes and credits, AFDC, Food Stamps, day care, and work expenses. Marginal rates actually exceed 100% at some earnings levels.

Source: Eugene Steuerle, The Urban Institute, Washington, D.C., and Paul Wilson, St. Olaf College, Minnesota.