

Impacts of Child Support Policy on Single Mothers' Material Well-being and Labor Supply

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Single mothers often experience more severe economic and social challenges than the two-parent households. Recent data collected by the Current Population Survey reveal that roughly 13.4 million single parents live with at least one dependent child 21 years old or younger (Current Population Reports, 2016). The same source indicates that five out of six of these custodial parents are single mothers. The disadvantaged economic status of single mothers could negatively impact the well-being of their children (McLanahan & Booth, 1989; Thomson, Hanson, & McLanahan, 1994). Literature documents a strong relationship between childhood poverty and child or adolescent well-being (Brooks-Gunn & Duncan, 1997; Duncan, Ziol-Guest, & Kalil, 2010). Such findings are consistent with the human capital theory, which predicts the deterioration of the quality of children in absence of time- and money-intensive goods and services provided by both parents (Becker & Lewis, 1974). Responding to these undesirable trends, public policy makers have implemented various programs in order to enhance the economic status of single mothers and their children.

The Child Support Enforcement (CSE) enacted in 1975 is a collection of federal and state laws designed to boost an absent parent's involvement in their child's life. The CSE, through a state court order, attempts to provide the custodial parents (usually mothers) a constant flow of financial transfers from nonresident parents. Past research paid relatively little attention to the household or individual-level outcomes of the child support policy, particularly to the recipients' economic well-being and labor supply decisions. Some researchers investigated the effectiveness of the CSE policy in terms of broad measures such as collection success rates and amounts received (Case, Lin, & McLanahan, 2003; Haung, 2009; Sorensen & Hill, 2002). These studies demonstrated that strict enforcement measures generally enhanced the policy outcomes. However, an increase in the likelihood of receipt does not necessarily imply a significant improvement in the recipients' material well-being. Other studies focused on the ability of child support policy to lift recipients out of poverty and discovered a modest antipoverty effect among single mothers (Bartfeld, 2000; Cancian, Meyer, & Park, 2003; Meyer & Hu, 1999). These studies calculated recipients' income with and without child support and compared the percentages of recipient families falling below the poverty thresholds. A major shortcoming of this approach is that the federal poverty line is an inaccurate measure of poverty and economic hardship (Citro & Michael, 1995). Moreover, income in national surveys is measured with substantial error, especially at the lower tail of distribution.

A statutory objective of the original CSE program and its numerous incremental adjustments was to improve the children's economic well-being and prevent and/or reduce material hardship. Basic economic theory predicts that a child support transfer expands the recipient family's budget and allows for increased consumption of market goods and leisure. However, the precise impacts of child support on consumption of market goods and labor supply are difficult to predict due to a trade-off between leisure and consumption. The receipt of additional income in the form of child support allows the recipient families to maintain the same level of consumption of market goods even if they decided to earn less income. Alternatively, the transfer could allow the recipients to consume more if they do not change their labor supply. Ultimately, the size of the effects of child support receipt on consumption of market goods and earned income is an empirical question that we attempt to address in this study. We extend the previous research by investigating the impact of the CSE policy on the material well-being of single mothers. In particular, we attempt to confirm the intuitive thesis that the receipt of child support, as well as the amount of payment, enhances the single-mother families' consumption of market goods. We chose to measure well-being using consumption due to its conceptual and measurement superiority over alternative measures of material well-being, such as income (Meyer & Sullivan, 2003).

Data for the empirical analysis is drawn from the 1999-2013 waves of the Panel Study of Income Dynamics (PSID). The PSID is a longitudinal survey of the American households conducted every two years and contains detailed household-level economic and demographic information. We restrict the analysis sample to 7367 single mothers who are (potentially) eligible to receive child support, observed

for an average of 920 survey waves. This excludes single mothers of a child whose father is dead and those who are observed in only one wave.

To test the impact of child support recipient on family economic well-being we estimate the following model:

$$Y_{it} = \gamma C_{ist} + \beta_1 X_{it} + \beta_2 Z_{st} + u_i + w_s + v_t + \varepsilon_{ist} \quad (1)$$

where C represents child support variables measured for family i residing in state s at time t , X and Z , respectively, are the vectors of individual and state-specific control variables. We estimate the models with individual (u), state (w) and time fixed (v) effects that control for any unobserved and time-invariant factors that might impact an outcome of interest.

Two separate sets of variables are used in our empirical analysis to operationalize the dependent variable Y . The first group includes a measure of total consumption, as well as several measures of consumption defined more narrowly, e.g., consumption of housing or expenditures on food. Total consumption is constructed as the sum of expenditures on non-durables (food at home and away from home, utilities, transportation related expenses, and child care) and service flow of durables (houses, cars). Our procedure for converting home and car expenditures into service flows is similar to the procedures utilized by Cutler et al. (1991) and Sullivan and Meyer (2003). For renters, the service flow of apartments is calculated as the sum of rent expenditures. For homeowners, the service flow is calculated as the rental equivalent value, i.e., the amount for which the home could be rented. The rental equivalents are not available in the PSID data, and we used the Consumer Expenditure Survey (CE) for years that match the PSID waves to predict rental equivalents for homeowners. Specially, we regressed the self-reported rental equivalent value of the home on value of the home and a set of family composition and house type dummies. We then used the obtained coefficient estimates from these regressions to calculate the rental equivalents of the owned homes in the PSID. Consumption does not include health and education spending that could be classified as investments. The final consumption variable approximates consumers' permanent income and measures economic well-being much better than current income, particularly for low-income consumers (Sullivan & Meyer, 2003).

The second set of dependent variables consists of measures of mothers' labor supply including an indicator variable for being employed, earned income, and the average number of hours worked. The average number of hours worked is calculated by combining regular and overtime working hours. Our key independent variable i.e., the measure of child support transfer is defined as a binary indicator of receipt (treatment variable) and also as the amount of transfer (child support income). The child support variables may be endogenous to consumption or labor supply decisions. Moreover, some unobserved factors like personality traits or human capital endowments might simultaneously affect the outcome decisions and child support receipt. To circumvent these potential sources of bias we employ a two-step instrumental variables procedure (2SLS) and estimate the following models in addition to equation (1) above:

$$C_{it} = \varphi I_{st} + \delta_1 X_{it} + \delta_2 Z_{st} + \tau_{ist} \quad (2)$$

$$Y_{it} = \gamma \hat{C}_{ist} + \eta_1 X_{it} + \eta_2 Z_{st} + v_{ist} \quad (3)$$

where I is the vector of instrumental variables and the remaining elements are defined as in equation (1) above. Similar to the estimation of equation (1), the time-invariant individual, state, and year effects are differenced out via a fixed effects estimation strategy. The vector of instruments includes median income in the custodial mothers' state of residence, demographic characteristics of respondents' state of residence (i.e. divorce rate and teenage birth rate), state-level average child support payments and maximum TANF payment to family of three in the mother's state of residence.

Our preliminary results show that the receipt of child support has a positive impact on total consumption as well as consumption of housing and expenditures on food or health. However, neither of the coefficients estimated with the instrumental variable fixed effects models is statistically significant. The IV estimates of the relationships between the amount of child support income and consumption outcomes also suggest that the relationship between the amount of support received and consumption is positive but not statistically significant. Only the elasticity of health-related expenditures is positive and significant at 0.05 level. Our empirical analysis reveals that the receipt of child support has a sizable and statistically

significant negative effect on single mothers' labor income, hours worked, and the likelihood of being employed. Additionally, we find that an extra 1% of child support received reduces labor income by about 0.7%, the amount of time worked by about 0.2%, and the likelihood of being employed by about 0.08 basis points. Overall, the results suggest that there is a limited positive impact of child support receipt on consumption of market goods and that the single mothers reduce their supply of labor in response to the transfer.

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