

# PRESENTATION TO THE VIRGINIA CHILD SUPPORT GUIDELINES REVIEW PANEL

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## Qualifications

- Professor of Economics, Emeritus, University of California, Santa Barbara.
- Distinguished Research Professor, Fielding School of Public Health, University of California, Los Angeles.
- Ph.D. in Economics, Harvard University
- Formerly, Chief Economist, U.S. Federal Trade Commission, Washington.

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## Introduction

- Thank you for inviting me. I am happy to discuss the implications of my recent article entitled: “Why Does Child Support Go Unpaid” which appeared in the summer 2024 issue of the journal REGULATION.
- That publication reviews policy issues dealing with government interventions in the economy broadly defined, which certainly includes government sponsored guidelines for child support awards.
- I had published an earlier article, along with colleagues, entitled “The Monetary Costs of Raising Children” in the 2015 volume on *Research in Law and Economics*, and my recent article followed from that research.
- But also, as the Panel had previously consulted with Dr. Jane Venohr on Child Support issues, this presentation provides me an opportunity to point out the differences between her approach and mine.

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## Current Data on Child Support Payments

- Relevant data on Child Support Payments appear in the report: “Custodial Mothers and Fathers and their Child Support: 2017” published by the United States Census Bureau.
- While the report includes detailed statistics, I present here only a few of its conclusions.
  1. “About 7 in 10 custodial parents (69.8%) who were supposed to receive child support in 2017 received at least some payments.” (p.1)
  2. “Less than half (45.9%) of custodial parents who were supposed to receive child support received full child support payments.” (p. 1)
  3. “the aggregate amount of child support that was supposed to have been received in 2017 was \$30.0 billion; 62.2% of that amount was received.” (p.1)

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## Historical Data on Child Support Payments

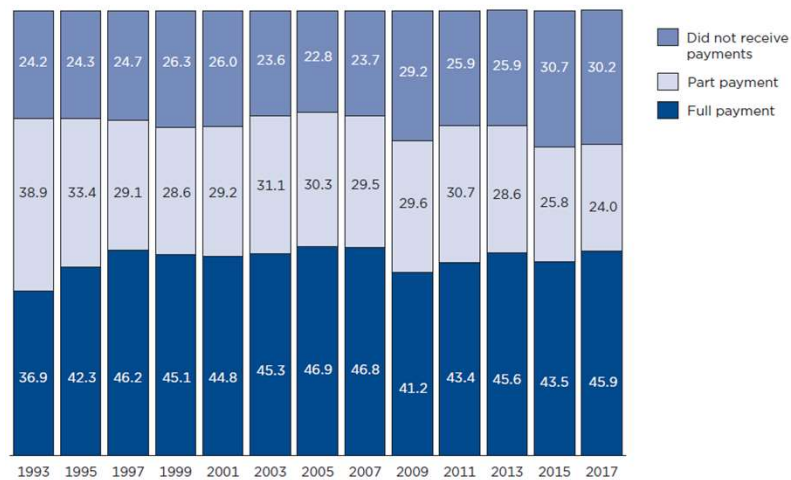
- Here are also some historical highlights:
    - “The proportion of custodial parents who were supposed to receive support, but received none, increased from 24.2% in 1993 to 30.2% in 2017.” (p. 2)
    - “The number of custodial parents who were supposed to receive child support has decreased from 7.3 million in 2003 to 5.4 million in 2017.” (p. 2)
- See Table 1 for more detailed data.

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### Table 1

**Payments Received by Custodial Parents Who Were Supposed to Receive Child Support Payments: 1993-2017**  
(In percent)



Source: Timothy Grail, "Custodial Mothers and Fathers and their Child Support: 2017," U.S. Bureau of the Census, 2020, p. 4.

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## What the Data Indicate

- Comparing 1993 data with that of 2017, the percentage of custodial parents receiving full payment has increased slightly while the percentage of custodial patents receiving any payments has declined slightly.
- The picture is one of overall stability in actual child support payments. **That observation indicates current policies have not been a solution to the problem of unpaid support payments .**
- Although states may have adopted Child Support Guidelines, following the 1988 Child Support Amendments, there appears to be little progress in actual payments made.
- If these data are correct, the relevant question is WHY? Why do so many parents not make their assessed payments?

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## An Economic Explanation (1)

- A critical feature of an effective child support administration is the needed balance between award amounts and the actual monetary costs of raising children.
- If award amounts are too low, custodial households are financially restrained from expenditures that would impact the children.
- But if award amounts are too high and exceed the difference between award and actual monetary costs, child custody becomes a financial asset that is funded by the payer.
- In either case, contending parties gain monetary benefits from enhanced custodial positions. Recipients benefit when awards are too high while payers benefit when awards are too low.

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## An Economic Explanation (2)

- This discussion rests on the underlying Federal regulations that emphasize:

“The Child Support system is not meant to serve a punitive purpose. Rather the system is an economic one, designed ... [so that each parent] should share equitably in the economic burdens of child rearing.”

- I interpret that provision to mean that award amount should rest on the actual monetary costs of raising children. They should not be too low or **too high**.
- Policy-makers therefore need to explore how these “economic burdens” should be defined, which is fundamentally an economic question that can be answered with available data.

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## Available Data on Child Rearing Costs

- There is available data on household expenditures by major categories, where households can be classified by income levels as well as number and ages of children.
- An important point of agreement between Dr. Venohr and myself is that we both use the same data: the Consumer Expenditure Survey as published by the U.S. Bureau of the Census.
  - she writes that it is “the nation’s largest and most comprehensive survey of household expenditures.” \* I agree.
  - our differences do not pertain to the data employed.

\* *Report of the 2014 Nebraska Child Support Advisory Commission, Appendix A prepared by Jane Venohr, Ph.D., November 4, 2014, p. 5.*

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## The Empirical Analysis (1)

- Using the Census Bureau data, one can compare reported expenditures on the various expenditure categories between statistically identical households with similar incomes as between those with children and without children.
  - if a household with children spends more on particular types of expenditures, then the additional expenditures in each category can be considered attributable to the child.
  - Note that reported additional outlays include both household collective goods, such as housing, food and transportation, as well as private goods such as children's clothing and child care and education.
  - **these additional outlays reflect the marginal or incremental expenditures made in households with children as compared with those without children.**

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## The Empirical Analysis (2)

- My colleagues and I employed regression analysis to determine how much more is actually spent on average in households with and without children within income classifications set by the Census Bureau.
  - a commonly used statistical method, compares average expenditures in different households: those with no children and those with one, two and three plus children, all for given levels of income.
- The analysis is carried out separately for three income classes.
  - Low income households: under \$76,796.
  - Medium income households: between \$76,803 and \$139,012.
  - High income households: above \$139,021.

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## The Empirical Analysis (3)

- The statistical results reported in my recent publication rely on the findings published in 2015. However, they are adjusted for the price inflation that occurred during the intervening years. The values reported here are those restated at 2024 price levels using the Consumer Price Index.
- My findings describe the Incremental Costs associated with including children in the household as compared with those without children.
- Rather than provide these estimates separately, they are reported subsequently along with comparable figures based on the Rothbarth methodology favored by Dr. Venohr.

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## The Rothbarth Method (1)

- While Dr. Venohr promotes the alternate Rothbarth Method for determining child costs, her approach has certain similarities to the Incremental Cost approach.
- See the following statement from her Appendix to the 2014 Nebraska Commission Report. In that passage, she describes this methodology:
 

“The Rothbarth methodology is a marginal cost approach that compares expenditures of two sets of equally well-off households: one set consists of two-parent families with children and the other consists of couples without children. The difference in their expenditures is presumed to be spent on child rearing.\*

\* Report of the 2014 Nebraska Child Support Advisory Commission, Appendix A prepared by Jane Venohr, Ph.D., November 4, 2014, p. 7.

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## The Rothbarth Method (2)

- However, the Rothbarth method requires that equally well-off households can be determined entirely by household expenditures on adult clothing rather than in terms of household income.
- Dr. Venohr's preferred method for determining child costs rests on an "adult clothing theory of well-being" rather than the conventional approach of household income.
- Its premise is that childless households as well as those households including children are equally well off only if they spend the same amounts of their income on adult clothing.
- The adult clothing method is relied upon despite the recognition that adult clothing generally constitutes less than 5% of household spending.\*

\* *Review of Statewide Uniform Child Support Guideline*, Report to the California Legislature, Appendix A prepared by Dr. David Betson, June 2011, p. 166.

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## The Rothbarth Method (3)

- To an economist, this reliance on an "adult clothing theory of well being" appears unfathomable.
- Authors of an article published in the *American Economic Review* judged this method as "illegitimate."\*
- See the following appraisal published in the *Journal of Economic Literature*:

"The Rothbarth method imputes the same welfare level to households that have the same level of consumption of some adult only good. Once again, I find it is difficult to see why this commands any widespread attention." \*\*

\* Pollack, R.A. and Wales, T.J., "Welfare Comparisons and Equivalence Scales," *American Economic Review*, Vol. 69, 1979, p. 216.

\*\* Browning, Martin, "Children and Household Economic Behavior," *Journal of Economic Literature*, Vol. XXX (September 1992), p. 1443.

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## The Rothbarth Method (4)

- There is a second point of dispute that refers primarily to housing as a household collective good.
- This method requires that parents be compensated for sharing their households with their children; and also that this required compensation be included in the cost of raising children.
  - this required compensation has little to do with actual expenditures on children.
- A fundamental premise of Rothbarth models is that parents are worse off because they share their common goods (housing, food, transportation) with their children.

This premise requires that parents do not gain “utility” from their children, but rather lose “utility” as they are crowded out from their use of household common goods. Children are considered tenants rather than members of the household.

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## Incremental Costs and Rothbarth Estimates (1)

- As a legal matter, “cost” is the price that is paid for something.\*
  - incremental costs are then the direct outlays reported in the U.S. Consumer Expenditure Survey.
  - **Rothbarth models do not rest on expenditures made for children, but rather indicate the hypothetical compensation levels paid to adults for having children.**
- See the following table for the two sets of “cost” estimates.
  - The incremental cost figures are those reported in my recent article,\*\* while the Rothbarth figures are those advanced by Dr. Venohr.

\* U.S. Department of Justice, Office of Legal Counsel, as reported in *New York Times*, July 31, 2018, p. A17..

\*\* William S. Comanor, “Why Does Child Support Go Unpaid?” *Regulation*, Summer 2024, p. 18.

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## Incremental Costs and Rothbarth Estimates (2)

|                                                               | Incremental<br>Costs | Rothbarth<br>Estimates | Imputed<br>Costs |
|---------------------------------------------------------------|----------------------|------------------------|------------------|
| <b>Low Income Married Households:</b> average of \$50,491     |                      |                        |                  |
| One child                                                     | \$4,703              | \$8,942                | \$4,239          |
| Two children                                                  | 5,899                | 13,759                 | 7,860            |
| Three+ children                                               | 6,523                | 16,795                 | 10,272           |
| <b>Medium Income Married Households:</b> average of \$104,908 |                      |                        |                  |
| One child                                                     | \$6,529              | \$14,766               | \$8,237          |
| Two children                                                  | 9,160                | 22,503                 | 13,343           |
| Three+ children                                               | 10,277               | 27,172                 | 16,895           |
| <b>High Income Married Households:</b> average of \$231,273   |                      |                        |                  |
| One child                                                     | \$15,313             | \$23,196               | \$7,883          |
| Two children                                                  | 18,843               | 35,223                 | 16,380           |
| Three+ children                                               | 21,938               | 42,383                 | 20,445           |

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## Notes to Cost Estimates

Both the Incremental Cost and Rothbarth values are based on those reported in Table 10 of our earlier paper: "The Monetary Cost of Raising Children." published in 2015. The Rothbarth values were derived from a policy research report submitted to the state of Georgia.\*\*

The earlier values were adjusted to account for inflationary effects as indicated by changes in the Consumer Price Index between June, 2011 and February, 2024.

Low income married household were those with incomes less than \$76,796.

Middle income married households were those with incomes between \$76,803 and \$1139,012.

High income married households were those with incomes greater than \$139,021.

\* .William S. Comanor, Mark Sarro, R. Mark Rogers, "Monetary Cost of Raising Children," *Research in Law and Economics*, vol. 27, 2015, pp. 209-251.

\*\* Center for Policy Research, "Economic Basis for Updating a Child Support Schedule of Georgia," Appendix B, April 2011. The Rothbarth estimates are those reported at the average income levels indicated in the table; which excludes childcare and private tuition.

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## Incremental Costs and Rothbarth Estimates (3)

- The two sets of cost figures are quite different, which could result from the fact that households without children spend more on adult clothing.
  - households without children may have very different budgets than those with children.
  - **households without children are also likely to have very different preferences. However, one cannot presume that the well-being of households with children is lower just because they spend less on adult clothing.**

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## Critiques of the Incremental Cost Approach (1)

- Dr. Venohr's critique of the Incremental Cost approach does not relate to the methods employed but rather to the values obtained.
- She writes: "The empirical results are implausibly low, often below or near poverty amounts for the child's basic needs." \*
- But that response makes an economic error: In regard to household collective goods, incremental costs do not reflect consumption amounts.
  - for these goods such housing, food, and transportation, children consume their shares of the collective goods regardless of the incremental costs attributed to them.

\* Jane Venohr, "Review of Minnesota Child Support Guidelines, Economic Basis of Current Table and Potential Updates," July 17, 2017, p. 4.

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## Critiques of the Incremental Cost Approach (2)

- Dr. Venohr 's critique is a clear misunderstanding of the economic concept of incremental costs.
  - with collective goods, costs do not indicate the amounts actually consumed by children.
  - Instead, children share in the household collective goods as determined by their parents.
  - using economic jargon, children “free ride” on the outlays of their parents

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## Dr. Venohr's Arguments Supporting the Rothbarth Method

- Dr. Venohr's further argument is that the Rothbarth method is employed by the majority of states.\*
- She gives little consideration to the presumptions that underlie the Rothbarth method. Her only related statement is that “Economists don't agree on which methodology best captures actual costs.”\*\*
- She apparently fails to recognize that there is little support for the Rothbarth method in the economic literature.

\* Jane Venohr, *Review of the Nebraska Child Support Guidelines*, October 26, 2018, p 36..

\*\* *Ibid.*, p. 34.

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## Implications of Child Support Awards That Exceed Direct Costs of Raising Children

- When support amounts exceed the direct costs of raising children, child custody becomes a financial asset.
  - the award structure provides a monetary incentive to gain maximum custody, which affects both payer and recipient.
- Even when custody is not an issue, this award structure creates resentment by the support obligor whose payments fund this asset.
- Payments are missed; enhanced enforcement efforts are taken; and parental conflict follows.

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## My Conclusions

- An effective child support system requires the willingness of obligor parents to make their assessed payments.
- That outcome is promoted when payment amounts reflect the actual monetary costs of raising children. .
- The current system is deficient and does not meet its statutory requirements. Improvements are required.

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