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Luxembourg Income Study Working Paper Series

Working Paper No. 478

Child Support Policy: An International Perspective (Chapter 1)

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Chapter 1 Context

The purpose of this chapter is to provide a comparison of the demographic and socio-economic context that child maintenance policies are operating in. In particular it explores the prevalence of lone parents, their labour supply behaviour and the contribution that child maintenance makes to their income and to the relief of poverty. We did not ask the national informants for this information. Previous experience has led us to conclude that it is impossible to get this kind of information from national informants on a consistent basis, and that it is better to obtain it via the secondary analysis of micro social data. We reviewed the European Social Survey and the European Community Household Panel for this purpose but found that neither survey isolates the amount of child maintenance as a separate variable. Further they do not include the non EU countries we are interested in. So we turned to the Luxembourg Income Study (LIS).¹

The advantages of LIS are that it includes all our countries except **New Zealand** and **Denmark**,² and classifies income sources in a consistent framework.³ However using LIS we cannot distinguish between child maintenance and alimony and we cannot tell whether the money comes from formal or informal sources or through a court order or otherwise.

We have already undertaken some comparative analysis of the extent to which child maintenance reduces child poverty rates using LIS (Bradshaw, 2006) – that analysis is replicated here with a rather different methodology.⁴ Kunz *et al.* (2001) have also explored child maintenance for seven countries including the **UK** using LIS. They found that the proportion of non-widowed female headed families receiving child maintenance in the **UK** had fallen from 39.2 per cent in 1979 to 21.2 per cent in 1995 and the contribution of child maintenance to the net income of those receiving it fluctuated from 22.1 per cent in 1979 to 23.5 per cent in 1995.

The major disadvantage of LIS is that the latest data is from the circa 2000 sweep. LIS is updated every five years and the circa 2004 sweep is going to begin to be put up on the data base in early 2007 so the timing of this project is unfortunate. The latest data for the **UK** is 1999, well before the new child maintenance scheme began to operate, before the recent increases in lone parent labour supply and before the reduction in child poverty. So the picture painted here is somewhat historical for the **UK**. This is even truer for **Australia** because the latest data we have for there is 1994 and the child maintenance regime will have evolved considerably since then. It will be worth replicating this analysis when the circa 2004 sweep is produced.

¹ The computing for this analysis was undertaken by Jun-Rong Chen.

² Denmark has recently withdrawn its data which was anyway only for 1997.

³ V34 is 'child maintenance/alimony' and V20S2 is 'allowances to single parents such as advance maintenance paid by social security to compensate for unpaid alimony payments'. We included both these as child support except in Norway where we were assured by the national informant and her advisors that V20S2 included all benefits for lone parents except advanced maintenance.

⁴ In this analysis the poverty threshold is fixed at 60 per cent of the median of net disposable income.

1.1 Prevalence of Lone Parent Families

Table 1.1 compares the prevalence and characteristics of lone parent families⁵. The **UK**, **Sweden** and the **USA** have the highest proportions, nearly a quarter of families with children headed by a lone parent.⁶ In contrast the **Netherlands** has less than ten per cent of lone parent families. The **New Zealand** informant indicated that lone parent families constituted 29 per cent of all families with dependent children.

The majority of lone parent families in all countries are headed by a woman, however **Canada** has nearly a quarter headed by a man and the **USA** and the Nordic countries have more than 15 per cent headed by a man. **Austria** has only 3.3 per cent of lone parents headed by a man.

In all countries the majority of lone parents are divorced or separated from a marriage but in **Norway** and **Sweden** nearly half have never been married.⁷ In contrast in the **Netherlands** only 16 per cent have never been married. Widowed lone parents are in a minority in all countries but **Austria** has a much higher proportion (11.7 per cent) than **Sweden** (2.2 per cent).

Table 1.1 Prevalence of lone parent families, gender and marital status. Circa 2000

Country	Lone parent families as a % of all families with dependent children	% of lone parents headed by a male	Percentage of lone parent population who are			
			Single never married	Separated	Divorced	Widowed
Australia (1994)	14.1	14.8	28.2		71.8	
Austria	14.6	3.3	31.9	5.3	50.4	11.7
Belgium	13.7	8.8	17.2	22.2	51.0	9.6
Canada	18.5	24.4	31.8	29.3	30.7	4.3
Finland	17.9	15.5	31.7	10.6	52.4	5.2
France	14.8	12.0	38.1	6.4	47.9	7.6
Germany	15.7	8.4	28.7	18.0	48.6	4.8
Netherlands (1999)	9.7	8.0	16.0	3.6	72.9	7.6
Norway	21.5	17.5	43.5	17.6	35.1	3.7
Sweden	23.1	16.3	45.2	8.5	44.0	2.2
United Kingdom (1999)	24.2	10.1	38.3	22.6	33.7	5.4
United States	23.9	18.1	36.4	17.9	39.3	6.4

Source: Own analysis of LIS

⁵ Child support is also of relevance to step families but they are not identifiable in the LIS data set.

⁶ The 2004 Family and Children Study gives a proportion of lone parents families for the UK as 25 per cent.

⁷ The Australian classification of marital status of lone parents is 28.2 per cent single never married, 69.7 per cent separated, widowed or divorced and 2.1 per cent married or de facto. We are therefore unable to exclude widowed lone parents from the subsequent analysis.

Table 1.2 compares the number of children, the lone parents' age and the proportion with a child under five. The most common lone parent family in all countries has only one child but the **UK** has more large (3 children or more) lone parent families than any other country. The **UK** also has the highest proportion of lone parents under 25 – 14.7 per cent compared with for example the **Netherlands** with only 0.5 per cent under 25. The **UK** also has the highest proportion of lone parents with a child under 5 – 37.3 per cent compared with 13.9 per cent in **Austria**.

Table 1.2 Lone parent families – number of children, age of lone parent and % with a child under 5. Circa 2000

Country	Number of children %				Current age %				% with a child under 5
	1	2	3	4+	<25	26-35	36-45	46+	
Australia	50.5	33.1	13.5	2.9	9.0	31.4	44.0	15.5	32.7
Austria	74.2	24.2	1.6	0.0	4.7	26.6	46.7	22.0	13.9
Belgium	56.2	32.4	11.4	0.0	2.5	21.4	64.9	11.3	26.6
Canada	54.2	34.8	8.8	2.2	9.8	29.6	43.0	17.7	23.1
Finland	61.3	27.8	9.0	2.0	5.0	25.0	44.8	25.1	18.9
France	58.1	31.1	8.6	2.2	3.7	27.4	48.3	20.7	23.6
Germany	68.8	25.5	4.1	1.7	6.0	31.2	46.9	15.9	26.9
Netherlands	49.2	37.5	10.6	2.7	0.5	29.4	49.9	20.2	19.5
Norway	64.7	28.4	5.9	0.9	8.6	34.9	39.3	17.3	24.1
Sweden	53.8	33.1	9.6	3.4	4.1	28.8	46.7	20.4	19.8
United Kingdom	47.4	32.9	13.7	6.0	14.7	37.6	33.4	14.3	37.3
United States	50.6	31.5	11.9	6.0	14.5	30.1	34.9	20.5	31.8

Source: Own analysis of LIS

These characteristics of lone parent families have been found to be part of the explanation for variations in labour supply between countries (Bradshaw *et al.*, 1996).

It can be seen in Table 1.3⁸ that **Australia** and the **UK**⁹ have the highest proportion of workless lone parent families and the **UK** has the lowest proportion of lone parents working full time, defined as more than 30 hours. However the characteristics of lone parent families are not the whole explanation for lone parent labour supply – the **USA** has the highest proportion of lone parents working full time, despite sharing many of the **UK** lone parent characteristics – high proportions of single, young mothers, more children and under fives. **Sweden** also has a higher than average lone parent workless rate, despite the fact that it has smaller lone parent families, with older lone parents and fewer children under 5. Other factors that may influence labour supply are the educational level of lone parents, labour demand and social policy. Among the relevant social policies is of course child maintenance – to which we now turn.

⁸ Finland and Norway do not have data on hours worked.

⁹ The employment rate of lone parent families has risen since 1999 – in spring 2006 it was 56.6 per cent with 31.9 per cent employed full time (30 hours plus). Source: Labour Force Survey.

Table 1.3 Working hours of non-widowed lone parents. Circa 2000

Country	Working hours			
	0	<16	17-29	30+
Australia	57.3	8.0	8.4	26.2
Austria	25.3	2.0	22.4	50.4
Belgium	38.9	3.8	14.0	43.4
Canada	20.1	10.6	13.6	55.7
Finland	-	-	-	-
France	27.6	1.7	14.5	56.1
Germany	33.8	4.2	18.8	43.2
Netherlands	32.6	9.9	30.4	27.1
Norway	-	-	-	-
Sweden	40.9	7.6	11.9	39.6
United Kingdom	55.8	8.5	12.9	22.8
United States	15.5	2.1	9.1	73.3

Source: Own analysis of LIS

Table 1.4 presents the proportion of all non-widowed lone parents who reported receiving child maintenance. This ranges from 21.5 per cent in the **UK** to 94.8 per cent in **Sweden** (probably because of the Child Support Guarantee). The proportion in the **UK** in 1999 was roughly the same level as found by Kunz *et al.* (2001) in 1995 (21.2 per cent).

It can also be seen in Table 1.4 that the number of non widowed lone parents in the LIS data set for some countries is quite small, especially in **Austria** and **Belgium**. This will have an influence on sampling errors in the analysis in this chapter.

Table 1.4 % receiving child maintenance. All non-widowed lone parents. Circa 2000

Country	Number of non widowed lone parents	% non widowed lone parents receiving child maintenance
Australia (1994)	363	33.2
Austria	80	58.8
Belgium	101	40.1
Canada	1790	30.8
Finland	349	69.0
France	447	55.8
Germany	399	28.4
Netherlands (1999)	144	27.7
Norway	575	77.7
Sweden	519	94.8
United Kingdom (1999)	1980	21.5
United States	3986	31.7

Source: Own analysis of LIS

Table 1.5 presents the average value of child maintenance paid to families *receiving child maintenance* using a set of different indices:

- in £ purchasing power parities per month
- as a proportion of national average earnings¹⁰
- as a proportion of average net disposable income, and
- as a proportion of total cash transfers.

Thus it seeks to present the value of child maintenance in a consistent comparative perspective.

The **USA** has the largest cash payments and the highest as a proportion of cash transfers.¹¹ As a proportion of average earnings it is highest in **France**. The **UK**¹² has the third highest payment in cash terms; the third equal highest as a proportion of average earnings; the highest as a proportion of net disposable income; and the fourth highest as a proportion of average transfers. Interestingly the Nordic countries tend to be at the bottom of this league table.

Table 1.5 Contribution of child maintenance. All families with children receiving it. Circa 2000

	Child maintenance, £ppps	CM as % of national average earnings	CM as % of national average net disposal income	CM as % of national average net cash transfers
Australia (1994)	162	10.5	10.3	71.9
Austria	174	18.0	11.6	37.6
Belgium	158	12.9	10.0	35.4
Canada	227	12.1	11.2	74.9
Finland	116	11.3	9.2	51.8
France	178	18.3	12.5	38.0
Germany	159	10.0	11.6	41.3
Netherlands (1999)	141	8.3	9.5	44.7
Norway	136	10.4	8.3	34.6
Sweden	112	8.0	9.0	24.5
United Kingdom (1999)	222	12.9	13.2	65.0
United States	261	12.6	10.8	96.2

Source: Own analysis of LIS

1.2 Contribution of Child Maintenance to Child Poverty Reduction

We now explore what contribution child maintenance makes to the reduction of child poverty. To do this we assess the contribution that each element of the tax and benefit package makes to reducing the pre transfer/market generated child poverty rates. Table 1.6 takes non-widowed lone parents only. A child poverty threshold is fixed as 60 per cent of median net disposable income in each country using the modified OECD equivalence scale.

¹⁰ For full time earners working at least 30 hours per week.

¹¹ In fact they represent almost all cash transfers. However this may be misleading as LIS does not record the value of food stamps.

¹² Bearing in mind that the figures refer to the pre 2003 scheme.

- Column A gives the child poverty rate that would be experienced if households only received market income.¹³ The child poverty rates range from 80.8 per cent in the **UK** to 47.1 per cent in **Finland**.
- Column B gives the child poverty rate after the addition of child and family benefits. This is Child Benefit in the **UK** and it does not have much impact: in the **UK** only 1.1 percentage point reduction in child poverty or 2.6 per cent of the pre transfer child poverty rate. In **Norway** the Transitional Allowance reduces the pre transfer poverty rate by 40 per cent.
- Column C then gives the child poverty rate after the addition of other cash benefits (Income Support, Jobseeker's Allowance, Incapacity Benefit and Family Credit and so on in the **UK**) and this contributes to a substantial reduction in child poverty in the **UK** and many other countries.
- Then in Column D we add child maintenance to get gross income – child maintenance contributes a further 3.5 percentage point reduction in child poverty compared with ten percentage points in **Australia** for example.
- In column E we take account of direct taxes to get at net disposable income. Taxes increase the post transfer poverty rate in most countries and by most in the **Netherlands** (13.0 percentage points). In the **UK** it is only 1.7 percentage points.
- Column D gives the impact of child maintenance on child poverty rates. Child maintenance may raise incomes without lifting them above the poverty threshold and thus reducing the poverty rate. Column F gives a measure of the extent to which child maintenance closes the poverty gap. This is the average of the difference between income and the poverty threshold that is closed by child maintenance. The reduction in the poverty gap due to child maintenance varies from 14 per cent in **France** to 1.9 per cent in the **UK**.

Note this is a formal picture of the impact of child maintenance on child poverty. It takes no account of the behavioural consequences of the absence of any of these cash benefits. Nor does it take account of the interactions between them – the fact, for example, that child maintenance was fully taken into account in assessing Income Support in the **UK** in 1999.

The conclusion of this is that child maintenance does make a contribution to poverty reduction in all countries, but it is not the most important element in the package in any country and for lone parents in the **UK** it makes the second smallest percentage contribution to poverty rate and poverty gap reduction.

¹³ Unfortunately the data for Austria and Belgium is not strictly comparable because they only record net income.

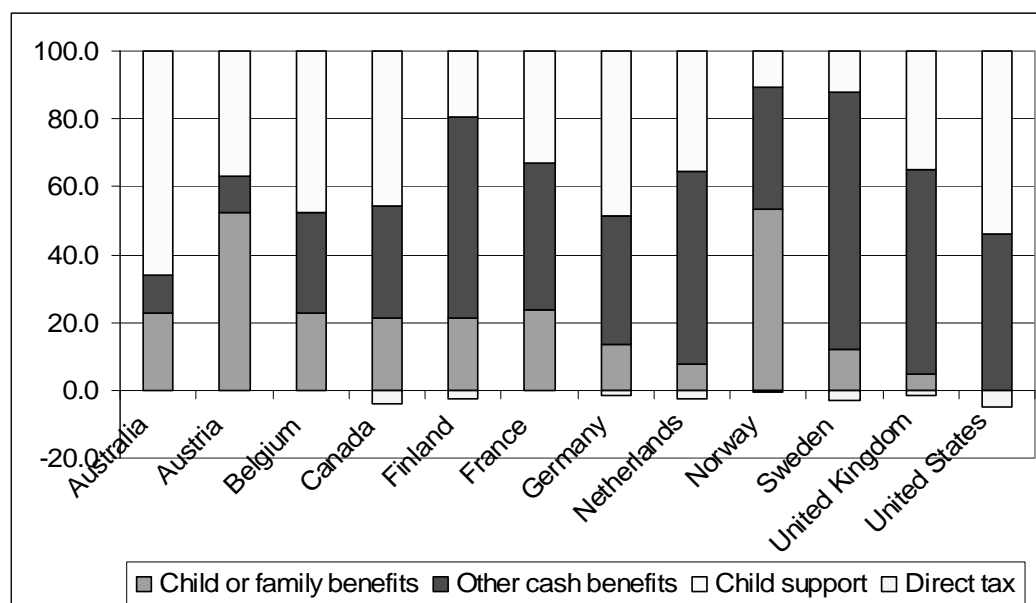
Table 1.6 Child poverty rates. All non-widowed lone parents. Circa 2000

	A	B	C	D	E	F
	Market income	(A)+Child or family benefits	(A)+All cash benefits before child maintenance	Gross income after child maintenance	Disposal income after direct taxes	% reduction in poverty gap as a result of child maintenance
Australia	73.3	68.9	56.7	46.5	46.5	6.0
Austria	63.8	44.8	38.4	24.8	24.8	8.7
Belgium	53.9	50.9	29.3	20.9	20.9	3.4
Canada	53.2	48.0	38.9	34.4	38.2	5.9
Finland	47.1	39.3	15.6	7.5	10.2	3.7
France	66.5	59.7	39.8	30.5	30.6	14.0
Germany	61.6	58.0	43.1	36.3	40.4	3.9
Netherlands	57.2	53.9	27.9	24.1	37.2	2.5
Norway	49.2	29.2	14.5	9.7	10.6	2.8
Sweden	50.4	45.7	14.4	9.0	12.8	5.4
United Kingdom	80.8	79.7	41.3	37.8	39.5	1.9
United States	58.2	58.2	51.2	47.5	52.4 ¹⁴	6.0

The previous analyses have examined the overall impact of child maintenance on lone parent families whether or not they receive any child maintenance. Of course child maintenance makes much more impact on child poverty when it is received. Indeed this may give a picture of what child maintenance could achieve in child poverty reduction if it was working effectively. Charts 1.1a and b give the child poverty reduction for all families (mostly lone parents) receiving child maintenance. Child maintenance in the UK contributes to 35 per cent of the reduction in child poverty achieved by benefits (Chart 1.1a) and if no child maintenance was received child poverty would be 46.5 per cent higher than it is (Chart 1.1b).

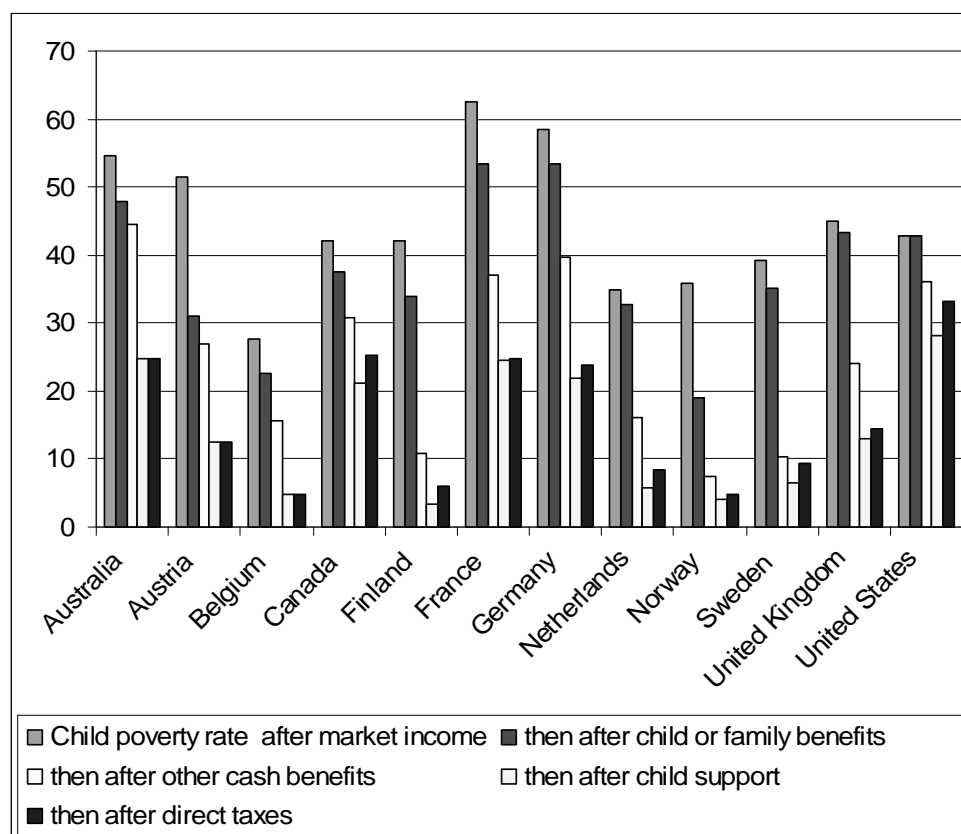
¹⁴ This is income tax only. Earned Income Tax Credit is treated as income related benefit in LIS and is included in column C.

Chart 1.1a Percentage reduction in child poverty by cash benefits and transfers and percentage increase to post transfer child poverty by direct taxes. Families with children receiving child maintenance. Circa 2000



Source: Own analysis of LIS

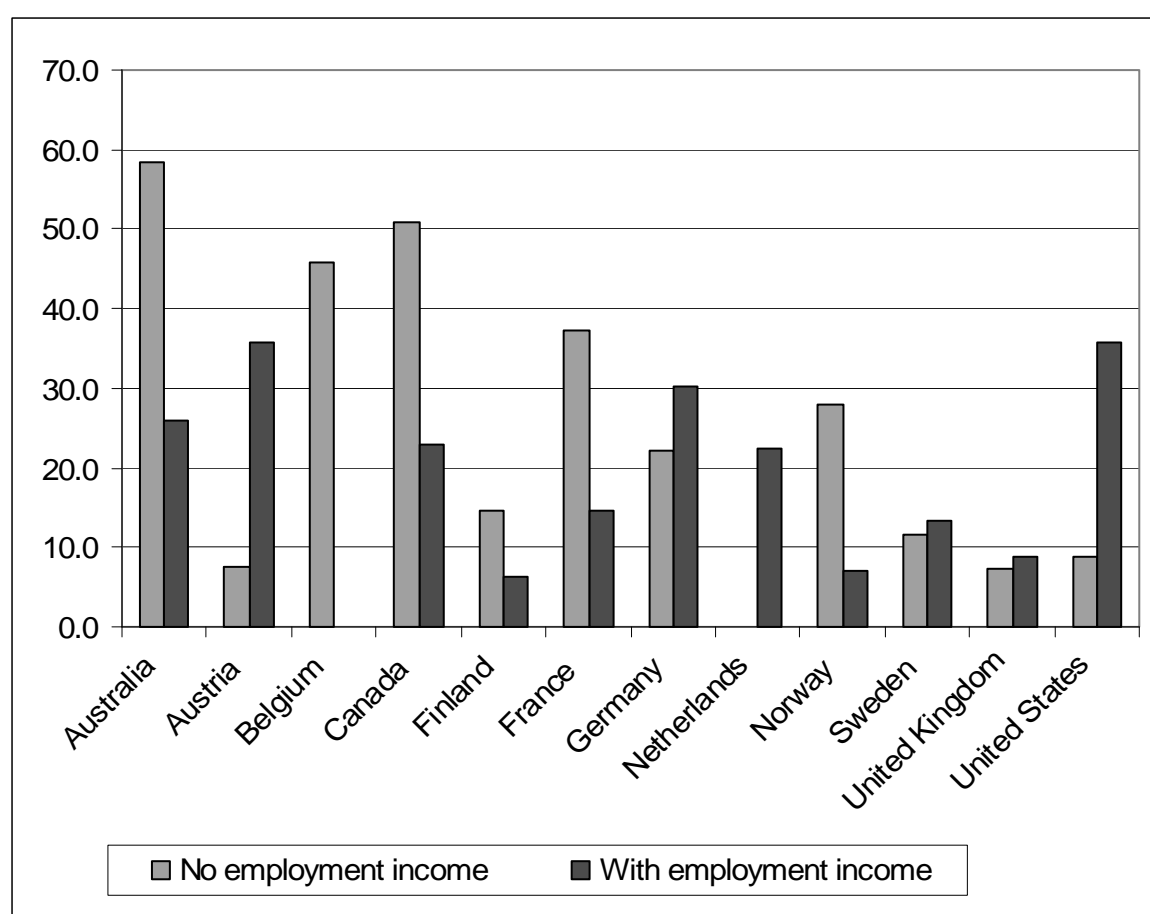
Chart 1.1b Child poverty rate after each element of cash benefits and transfers. Families with children receiving child maintenance. Circa 2000



Source: Own analysis of LIS

It also makes a difference whether or not a lone parent is in employment. Chart 1.2 shows the percentage contribution of child maintenance to child poverty reduction achieved by all transfers for lone parents with and without employment. There is considerable variation in the impact of child maintenance in different countries. In **Australia** and **Canada** child maintenance contributes to more than half the poverty reduction for lone parents with no employment and it makes an appreciable impact in **Belgium**. In the **UK** a child with a lone parent without employment income is very unlikely to be lifted out of poverty by child maintenance; child maintenance contributes to only 7.4 per cent of the reduction in child poverty. This is only a higher proportion than the **Netherlands**. If there is employment income, the **UK** is one of the countries where child maintenance contributes more to child poverty reduction but it is still one of the lowest – only 8.9 per cent.

Chart 1.2 % contribution to reduction in child poverty due to child maintenance. All non-widowed lone parent families. Circa 2000

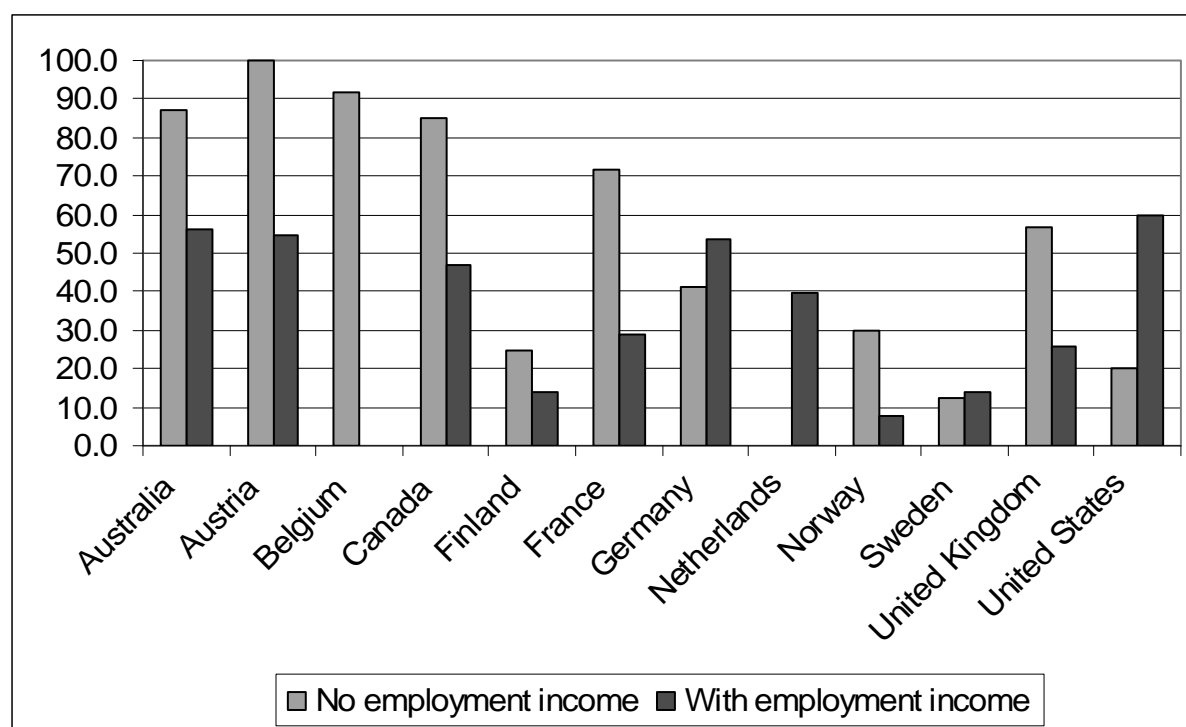


Source: Own analysis of LIS

Greater reductions in child poverty are achieved if child maintenance is received (Chart 1.3). In the **UK** if there is no employment income and child maintenance is received it contributes 56.6 per cent to the reduction in child poverty. However, only 10.3 per cent of lone parents without employment are receiving child maintenance in the **UK**. For those with employment income and child maintenance, the contribution of child maintenance to child poverty reduction is 25.6 per cent in the **UK**. But again only 14.8¹⁵ per cent of all non-widowed lone parents in the **UK** have employment income and child maintenance in 1999.

¹⁵ Families and Children Study 2004 indicates that the proportion had increased to 21 per cent.

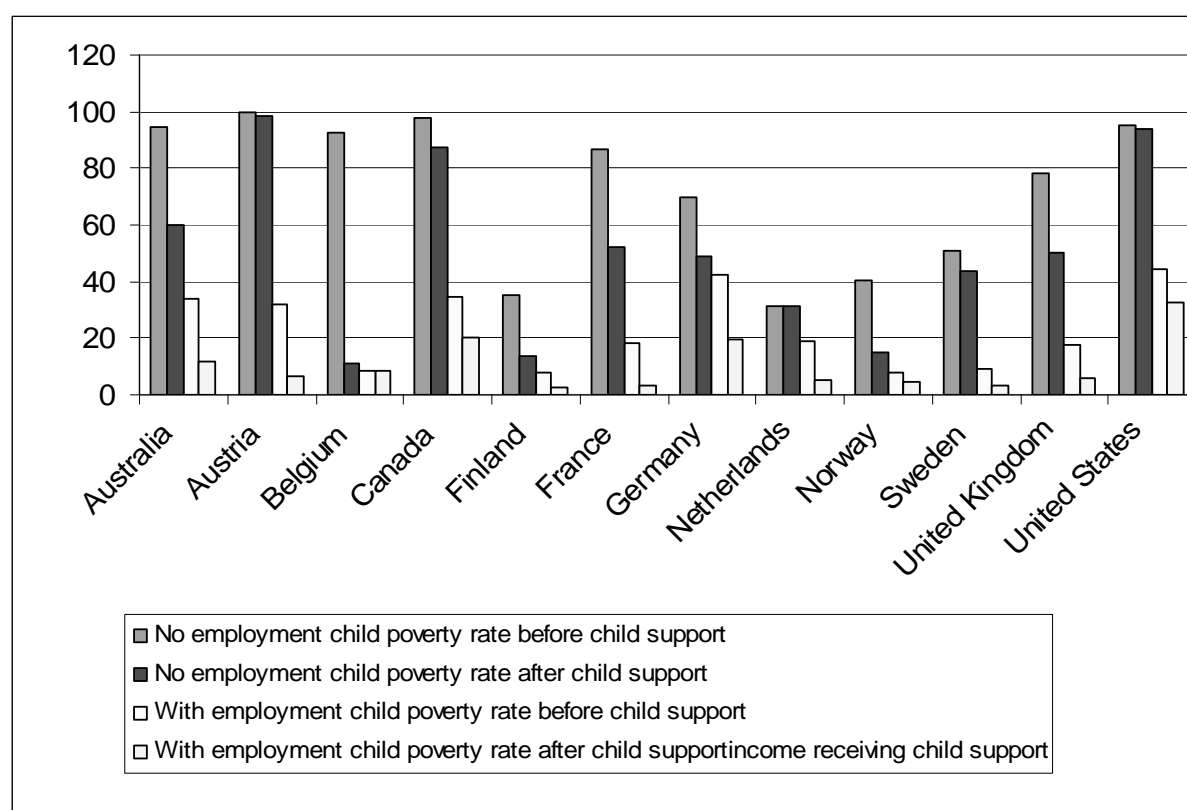
Chart 1.3 Reduction in child poverty due to child maintenance. Only non-widowed lone parent families receiving child maintenance. Circa 2000



Source: Own analysis of LIS

The previous two charts summarise the contribution of child maintenance to overall child poverty reduction but they do not illustrate how much child poverty is reduced by child maintenance. This is summarised in Chart 1.4 just for those receiving child maintenance. In the **UK** for the 5.7 per cent of non-widowed lone parents receiving child maintenance with no employment income it reduces child poverty by 36 per cent. Out of the 14.8 per cent of non-widowed lone parents with employment income and child maintenance the reduction in child poverty is 67.2 per cent. This picture for the **UK** has changed following the introduction of child tax credits. Bradshaw (2006) has produced a similar analysis for the **UK** based on the 2004/5 Family Resources Survey. The child poverty reduction of child maintenance for those receiving it was 64.2 per cent for lone parents in employment and 50.0 per cent for lone parents with no employment.

Chart 1.4 Percentage reduction in child poverty as a result of child maintenance. Non-widowed lone parents. Circa 2000



Source: Own analysis of LIS

1.3 Conclusion

Using the Luxembourg Income Study this chapter has compared the prevalence and characteristics of lone parents, explored the proportion of families with children receiving child maintenance, and the contribution that it makes to their income and the reduction of child poverty. The **UK** in comparative perspective has a high prevalence of lone parents and a low labour supply of lone parents, which is partly explained by their characteristics. A smaller proportion of non-widowed lone parents receive child maintenance than in any other country. However for those receiving child maintenance the level of payment is comparatively high.

These findings have implications for the relief of poverty. Child maintenance makes a comparatively small contribution to the relief of child poverty overall but if lone parents actually receive child maintenance the poverty reduction achieved is much more significant, producing child poverty rates which are less than half what they would have been without child maintenance. The impact of child maintenance also varies according to whether the lone parent is or is not in employment. For lone parents in employment in the **UK** child maintenance can reduce child poverty by over two thirds – more than any other country except **Austria**, **France** and the **Netherlands**. However it is not more effective overall because comparatively few non-widowed lone parents have employment and child maintenance.

This was the situation circa 2000 (1999 in the case of the **UK**). We know that for the **UK** things have changed, in particular employment rates of lone parents have been rising and

child poverty rates have been falling. We will not have a more up to date comparative picture using LIS data until the 2004 sweep data becomes available during 2007.

There are more recent estimates of the impact of child support on child poverty rates in the **UK**. Bradshaw (2006) estimated that in 2004/5 child support reduced child poverty by 5.6 per cent overall, by 11.8 per cent for children in lone parent families overall, by 50.2 per cent for lone parents receiving child support and 64.2 per cent for lone parents in employment and receiving child support.

In the **USA** although there is some evidence that child support has been improving especially for never married mothers (Grail, 2006; Sorensen, 2003; Sorensen and Hill, 2004) there is no more recent national analysis comparable with the LIS analysis reported here because the US research uses the US official poverty line which is much lower than 60 per cent of the median. Nonetheless, analyses from the US tend to show that child support is received by an increasing proportion of families below the poverty line (Sorensen, 2003) and is an increasingly important part of the income package of single mothers. The improvements in the US have not been uniform, however, and some states show substantially better performance than others (Cancian, Meyer and Park, 2003).

In relation to **Australia** there appears to be no more recent estimate of the impact of child maintenance on poverty than 1997-1998 (Harding and Szukulska, 2000). This estimated that child support increased for \$10 per week in 1982 to \$36 per week in 1997-98 or from two per cent to eight per cent of total disposable income of sole parent families and this improvement reduced the child poverty rate (50 per cent threshold from 15.4 per cent to 14.2 per cent).

Chapter 2 considers the different child maintenance regimes in the countries under study.