

DR. VENOHR'S MINNESOTA REPORT: A BRIEF RESPONSE

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I applaud the Minnesota Child Support Task Force for its willingness to consider alternate economic methods for determining child support awards. Getting the numbers right is an important responsibility as these decisions can substantially impact the lives of many children and adults in Minnesota. As you have seen, economists sometimes reach opposing positions, which your Task Force must reconcile. I offer this Response as an explanation for my differences with Dr. Venohr.

Although the Comanor-Sarro-Rogers research article is recent, from 2015, the economic principles applied are long established. Primary among them is that Costs are correctly measured by the expenditures made for a particular purpose. Commonly, these expenditures are those made to obtain one more unit of a particular item. In our context, the Costs are those made to support one more child, which of course may be the first. What is striking to me is that this basic principle has long been ignored.

In her report, Dr. Venohr observes that her favored approach, “the Rothbarth measurements form the basis of the child support guidelines in the majority of states” (p. 24). I do not disagree, but that fact does not validate the underlying economic principle. The

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<sup>1</sup> In preparing this note, I was substantially assisted by my colleagues: Mark Sarro and R. Mark Rogers.

Rothbarth method does not reflect the additional expenditures actually made to support a child nor does it offer the flexibility present in distinguishing expenditures by their individual categories.

A good share of Dr. Venohr's current report, dated March 21, 2017, disputes my earlier submission to the Minnesota Task Force; and I offer this brief statement by way of response. I emphasize the economic distinction between economic costs and values received, which are not distinguished in her report. My position, as described below, is that there is a misunderstanding as to what conclusions should be drawn from the Comanor-Sarro-Rogers published research.

Before proceeding, let me correct two misstatements in Dr. Venohr's report. On page 2, she refers to the Minnesota Child Support Basic Table (p. 1), and writes that it "reflects economic data on how much families spend on children" (p. 2). The stated implication is that current support tables reflect actual expenditures, although it is well known that in fact they do not. Indeed, the 2014 Minnesota Child Support Guidelines Review (on page 10 of that report) recognizes that "the [existing] studies do not measure actual direct spending on a child." Dr. Venohr apparently believes otherwise. Even USDA publications acknowledge that they employ various economic models to impute expenditures made for children from data on overall household expenditures. Interestingly, their models differ by expenditure categories.<sup>2</sup>

While this feature of the USDA figures does not necessarily invalidate their findings, it does make clear that child support award amounts resting on the USDA reports do not reflect

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<sup>2</sup> Mark Lino, Expenditures on Children by Families, 2009, U.S. Department of Agriculture, Center for Nutrition Policy and Promotion, 2010, pp. 3-10.

actual expenditures. Instead they rely on economic models which are then estimated with the available data. Fundamentally, the differences between Dr. Venohr and myself turn on which economic model should be used to derive child support guideline amounts, particularly since we both use the same underlying economic data.

My second correction concerns Dr. Venohr's effort to separate the concept of "continuity of expenditures" from our "out-of-pocket" method (p. 12). She writes that the former "refer[s] to measurement of child rearing expenditures in intact families" so that award amounts reflect "the same level of expenditures had the children and both parents lived together" (p. 35). However, by that criterion, our "out-of-pocket" (or incremental cost) method is precisely that which provides for continuity of expenditures. It is the only method which reflects actual outlays made in intact households on children.

A striking feature of Dr. Venohr's critique is that it pertains more to the child cost amounts that my colleagues and I derived than to the model we employed. Her critique rests largely on her judgment that our estimated cost amounts are too low and therefore not plausible. What that conclusion means is that our findings obtained from applying actual incremental (or marginal) cost methods are lower than those derived from more conventional USDA and Income Equivalence models. However, obtaining different results is not a reason to prefer one method to another, unless one is convinced from the start as to what are the appropriate conclusions.

Rather than starting from a preconceived set of plausible outcomes, consider instead the economic constructs of cost and value. The former concept, Economic Cost, refers to the

household expenditures needed for a particular purpose, such as supporting a child, plus the cost of any opportunities forgone to achieve that result. Economic Value, on the other hand, reflects the utility gained from achieving the result. In effect Value represents the utility gained from the purpose at hand; which is here indicated by the utility (or welfare) achieved by the child. **Value reflects what one gains from an outcome, while Cost refers to what one gives up for an outcome.**

For the most part, costs and values track each other; but not always. Consider the hypothetical example discussed in my Presentation Slides. A two-person household without children is living in a two bedroom apartment. Then a child arrives and the prior den is transformed into a nursery, leaving monetary housing expenditures unchanged. Although the child requires no additional housing costs, he or she gains the obvious value of having a dedicated nursery which permits uninterrupted nap time, etc. In this example, **the absence of monetary costs does not indicate a decline in child welfare.**

This discrepancy between Cost and Value is particularly apparent in the presence of collective goods. Private (or ordinary) goods are available only to one buyer at a time: if one person consumes it, no one else can use it at the same time. In contrast, collective (or public) goods are available for more than one person's use at the same time, and one person's use does not detract from another's use. A classic example is police and fire services, where their use by one person in a community does not detract from their use by others. This distinction is relevant because within a household, there are some private goods and some collective goods.

Among the most important household collective goods is the family residence, where its use by one member does not limit its use by another.

These concepts are relevant because a child's welfare depends on the value received from available goods and services, but not on their cost. For private goods, values and costs often track each other as items are generally purchased until they come into balance. For collective goods, on the other hand, that is often not the case. The household's adults in the absence of children may have selected a residence which is retained when a child arrives. To be sure, the adults may also have selected a larger residence to accommodate the child so that there are additional housing costs attributable to the child. In either case, the housing value received by the child can be much greater than the associated cost. **The critical point here is that a child's welfare in the case of a collective good is not measured by any costs attributable to the child.**

Consider now the case of food costs which are also purchased and consumed collectively. Again, the relevant question for a child's welfare is not how much the household's food budget is increased by the presence of a child, but instead whether the appropriate quantity and quality of food is actually consumed. A critical feature of US food budgets is the considerable extent to which food is wasted. A 2012 report of the National Resources Defense Council found "that American families throw out approximately 25 percent of the food and beverages they buy. The cost estimate for the average family of four is \$1,365 to \$2,275

annually.”<sup>3</sup> Note that these estimates of food wasted exceed our estimates of the out-of-pocket food costs for a married household with two children.<sup>4</sup> An obvious answer to the question of how children can be well fed with such small incremental household food costs is that less is wasted.

Another factor may be equally important. In the Consumer Expenditure Surveys, used by both Dr. Venohr and myself, restaurant meals are included as an expenditure on food. Because restaurant meals (including take-outs) are far more expensive than those prepared at home, food budgets may be greatly affected by the frequency of restaurant meals. If the household’s adults eat in restaurants less frequently in the presence of children than before they had children, then food budgets may not be much higher with children than in their absence, even though the amount of food consumed by children is substantial. Once again, **Dr. Venohr’s discussion is misleading because the quantity and quality of food consumed by children (its Value to children) is not limited to any higher food budget resulting from the presence of children (its Cost attributable to children).**

To be sure, in the case of restaurant meals, there could be a lower value from food consumption for adults in the household if they consume fewer meals away from home. However, there could also be greater value from food consumption as the adults’ meals are enhanced by the presence of their children. Both alternatives are possible, and perhaps even likely. My only point here is that trying to evaluate these opportunity costs is an uncertain task.

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<sup>3</sup> Dana Gunders, “Wasted: How America Is Losing Up to 40 Percent of Its Food from Farm to Fork to Landfill,” Natural Resources Defense Council, August 2012, p. 12.

<sup>4</sup> William S. Comanor, Mark Sarro, R. Mark Rogers, “The Monetary Cost of Raising Children,” *Research in Law and Economics*, Vol. 27, 2015, Table 2, p. 228.

A variant of Dr. Venohr's critique is that our results "yields child support amounts significantly below poverty levels." (p. ii) As noted above, however, the incremental costs of children have little correspondence with children's overall welfare, where the larger share of household outlays are made for collective goods. Housing, food and transportation are all purchased collectively, and our results indicate that the presence of children affects them less than might be anticipated. **But that observation does not mean that children are being short-changed, or that their consumption levels are reflected in their household's out-of-pocket costs. In the presence of collective goods, the Value gained from consumption can exceed their associated Cost. And children can have a much higher standard of living than represented by any higher expenditures attributable to them.**

The Federal poverty level in 2016 for a family of 3 people is set at \$20,420. In contrast, the average income in our sample of low income, married households, adjusted to 2016 prices, is \$41,096, and of low income, single households, also in 2016 prices, is \$30,445. Our samples of low income households therefore had average income levels well above poverty. And the children in our sample, who partook of the benefits of the household collective goods available to them, enjoyed economic values which exceed established poverty levels. Once again, Dr. Venohr's discussion suffers from an assumed equivalence between cost and value in the presence of household collective goods.<sup>5</sup>

Dr. Venohr also offers some critiques of our methodology used to estimate child costs. Her most helpful comment concerns the form of our estimating equation where she suggests

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<sup>5</sup> The distinction between welfare criteria and incremental costs is long established in economics. See A.M. Spence, "Monopoly, Quality, and Regulation," *Bell Journal of Economics*, Vol. 6, 1975, p. 417.

that adding additional income variables “could improve the equation’s ability to capture the non-linear relationship between income and expenditures” (p. 14). Her point here is suggestive and we will look into it in our on-going research.

Dr. Venohr’s other methodological point is that because income can be a determinant of the number of children, our estimating equations may be misspecified on this account (pp. 22-23). However, that issue was explicitly considered in our earlier research paper.<sup>6</sup> In the cited section of our paper, we acknowledged that although some degree of bias in our estimates may remain, “the direction [if not the presence] of any remaining bias remains uncertain.”<sup>7</sup> In other words, the estimates could be too large, but they could also be too small.

After dismissing our child cost estimates as too low, Dr. Venohr adopts the status-quo position that “either the Betson-Rothbarth measurement (a variant of the Income Equivalence model) or USDA measurement would be appropriate for ... Minnesota” (p. 24). However, **her justification for this conclusion is not substantive but rather that both methods have long been used.** That statement is correct, but of course could be a contributing factor behind the continued problem of enforcing child support payments. As noted in my Presentation Slides, current support collections in Minnesota lie below 75 percent despite the presence of a substantial child support enforcement process.<sup>8</sup>

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<sup>6</sup> See our section on “The issue of Endogeneity and the Quantity-Quality Trade-Off.” William S. Comanor, Mark Sarro, R. Mark Rogers, “The Monetary Cost of Raising Children,” *Research in Law and Economics*, Vol. 27, 2015, Table 2, pp. 220-223..

<sup>7</sup> *Ibid.*, p. 223.

<sup>8</sup> United States Federal Office of Child Support Enforcement, *Annual Report to Congress, FY 2015*.

Our research is on-going, and subject to revision. However, our current results obtained by estimating the incremental costs of including children in a household leads to our judgment that both the USDA and Income Equivalence methods advocated by Dr. Venohr are too high.

Dr. Venohr's "bottom-line question is whether the Comanor amounts are a realistic basis for a child support basic table" (p. 10). The problem with this question is that its answer depends on what child support tables are designed to represent: a) the amounts actually spent on children, or b) the amounts required to compensate adults entirely for their decision to have children, which includes much more than out-of-pocket expenditures. **The second approach has led to imputed child costs which greatly exceed actual monetary expenditures.** I believe that child support awards should be limited to amounts which reflect the actual expenditures made to raise children.