

## MEMORANDUM

July 24, 2017

To: Minnesota Child Support Task Force

Fr: William S. Comanor

Re: Jane Venohr's Report dated July 17, 2017

I have been asked by a Task Force member to briefly comment on Dr. Venohr's recent report, and am responding here to that request. I am Professor of Economics at the University of California, Santa Barbara so these comments deal largely with the economic issues raised in her report. My qualifications and CV are available on the Task Force website.

1) In describing the USDA Surveys of Child Expenditures, Dr. Venohr writes that "the USDA uses a different approach to measure expenditures for each category." (p. 2) Note that the word "measure" is not an accurate account of the USDA approach. What it actually does is "impute" expenditures to children in the major categories.

- In Housing, the USDA imputes the cost of an additional bedroom to children even though no actual additional expenditures may have been made.
- In Food, the USDA imputes dietary requirements to children even where no additional expenditures for food may have been made, which could be the case for a first child. As noted before, there is evidence that American families throw out approximately 25% of their food and beverage purchases.
- And in Transportation, the USDA imputes an equal share of these outlays to children, above a threshold, even when no additional expenditures are made in households with children..

2) Referring to the “Rothbarth Method,” Dr. Venohr writes that “Conventional economists generally believe that the Rothbarth estimator understates actual child rearing expenditures.” (p. 2) To support that assertion, she refers to a Lewin/ICF report from 1990, fully 27 years ago. There exists considerable disagreement among economists regarding the Rothbarth method.

3) Later in her discussion of the Rothbarth Method, Dr. Venohr observes “that income is fixed in his [my] model, which means that income in the household is unaffected by the presence of children.” (p. 4) That statement is correct and may point to an essential difference between us. I presume that household income is not increased by the presence of children; adding a child to the household does not in fact generally lead to higher incomes. Apparently, Dr. Venohr believes the opposite; that household incomes expand to meet the needs of the children.

Dr. Venohr continues on this theme in the following paragraph where she writes that “the [Comanor] model specification assumes that income is constant, rather than that income may differ between childless couples and couples with children.” (p. 4) Although Dr. Venohr correctly observes that our estimating equations indicate average levels of expenditures on children for households with low, medium and high incomes, she is not correct that incomes are fixed in the underlying data.

Indeed, each sample includes a range of household incomes

Furthermore, it is essential to include household income in these equations for otherwise the separate effects of income and children on household expenditures would be confounded. Dr. Venohr is correct that households with children may have different income levels than households without children; but that observation says little about the costs of raising children at given income levels.

4) Dr. Venohr's foremost criticism has less to do with our method used to measure child costs but instead suggests that our "empirical results are implausibly low."(p. 4) Apparently, she believes that only estimates that fall within the USDA/Rothbarth limits are plausible. Perhaps a reason for this judgment is her implicit assumption that incomes rise in the presence of children sufficiently to cover the large imputed costs proposed by both the USDA and Rothbarth methods. .

5) Dr. Venohr's final point is that "although Comanor suggests that opportunity cost should be considered, his methodology does not actually consider them." (p. 4) On this point, she is correct. My explanation is that neither I nor other economists can estimate these costs without making unreasonably strong assumptions, which I am unwilling to make. Both the USDA and Rothbarth methods rest on very strong assumptions, which provide a foundation for their conclusions.

In summary, while the Task Force is commissioned to make its own judgments on the cost of raising children, it should do so with a recognition that there is no adequate economic basis for the child cost estimates, whether by means of the USDA or Rothbarth models, that have commonly been used.