

Fragile Families Research Brief

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Unwed Fathers, the Underground Economy, And Child Support Policy

Background

The amount of potential child support available to children is closely linked to the economic circumstances of nonresident fathers. Proponents of stronger child support enforcement have been encouraged by research in the last decade showing that incomes of unmarried and nonresidential fathers in the U.S. are in fact higher than previously thought. The implication is that fathers may be able to pay more child support than they currently are paying and that better enforcement could potentially lift greater numbers of children out of poverty and off of welfare. The goal of strengthening child support enforcement has received bipartisan support and was a central element of the 1996 welfare reform bill.

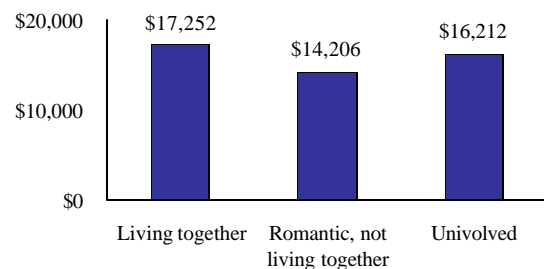
In order to understand how stronger child support enforcement might affect children's wellbeing, it is crucial to get a more accurate picture of fathers' economic status. While existing national surveys have expanded our understanding of nonresidential fathers' earnings (and consequently their ability to pay child support), these surveys have important limitations. First, because the surveys don't include nationally representative data on nonresident fathers, researchers generally have had to rely on assumptions about the fathers themselves in order to estimate their earnings. Second, these surveys do not provide detailed information about the composition of fathers' income. To accurately estimate the true earnings of nonresident fathers, it is important to both survey as many nonresident fathers as possible and document regular and underground employment. The Fragile Families and Child Wellbeing Study, which interviews unmarried fathers shortly after the birth of their child, goes beyond previous surveys by obtaining a more representative sample of unmarried fathers and by

asking these men about underground as well as official earnings.

Fathers' Earnings

According to the Fragile Families data, the vast majority of unmarried fathers (76 percent) reported that they were employed in a "regular job" during the week prior to the interview. The unwed fathers in this sample earned just over \$16,000 on average, about a \$1,000 less from previous estimates of the earnings of nonresident and/or unmarried fathers.

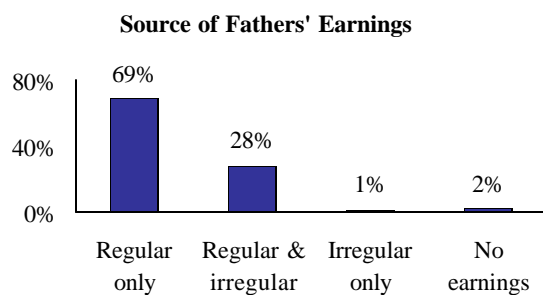
**Fathers' Mean Earnings by
Relationship Status**



Furthermore, fathers living with their partners were significantly more likely to be employed than romantically involved fathers who were not living with the mother. They also earned more income on average than nonresident fathers. Fathers who were living with the baby's mother earned about \$3,000 more per year than romantically involved fathers who were not living with the baby's mother, and \$1,000 more per year than fathers who were not romantically involved with the baby's mother. In addition, resident fathers worked a significantly greater numbers of hours per week and weeks during the last twelve months than romantically involved fathers who were not living with the baby's mother.

The findings also show that almost three in ten fathers participated in underground activity, with most of these fathers combining underground with regular sector work. (Only 1.3 percent of fathers worked solely in the irregular sector.)

Underground employment, also known as “irregular” employment, includes earnings from self-employment, off-the-books or under-the-table work, selling stolen goods, “hustling,” etc. When underground activity is taken into account, the average estimated earnings of all unmarried fathers increases by 5 percent. The estimated increase is significantly higher, however, for those fathers who participated in the underground economy – their estimated earnings increase by about 23 percent.



The data also allow us to learn about the characteristics of fathers who are more likely to work underground. All else equal, fathers who have less than a high school education, who have four or more children, who report high or very high alcohol use, or who report any drug use are significantly more likely to work underground than fathers who have greater than a high school education, who have one child, who report light alcohol use, or who report no drug use. These findings strongly suggest that fathers may undertake underground employment when they have difficulty finding and/or holding employment in the regular sector.

Implications for Child Support Policy

There are at least two different ways to interpret these findings with respect to child support policy. On one hand, they confirm previous studies' conclusions that unmarried fathers are able to pay more than they currently pay in child

support, and they confirm the importance of underground earnings for about 30 percent of fathers. Total potential child support payments could increase if a proportion of underground earnings were collected for child support in addition to regular earnings. Both findings suggest that child support enforcement should be strengthened.

On the other hand, the fact that underground income makes up a substantial portion of income for a significant minority of fathers suggests that the economic situation of these fathers is somewhat precarious in that those fathers who have difficulty maintaining employment in the regular sector appear to be more likely to work underground. Thus greater enforcement may drive these fathers toward participation in the underground economy, since such earnings are hidden from enforcement officials. Less overall income would go to children through child support payments, undermining the purpose of stronger enforcement.

This analysis highlights the importance of examining multiple sources of unmarried fathers' income. More research is needed on both the determinants of underground labor force activity and the nature of the relationships between regular work, informal work, and child support enforcement.

The Fragile Families and Child Wellbeing Study was developed to provide information about unmarried parents and their children. The study is following a cohort of parents and their newborn children for at least four years, examining the relationships within these families and seeing what factors (including governmental policy) may push them closer together or pull them apart. Data are being collected in twenty U.S. cities with populations over 200,000. The data are representative of nonmarital births in each city, and the full sample will be representative of all nonmarital births in large cities in the U.S. The current analysis is based on baseline data collected in the first seven cities (Austin, TX, Detroit, MI, Baltimore, MD, Newark, NJ, Oakland, CA, Philadelphia, PA, and Richmond, VA).