Toward Equity and Employment
An Employment-Centered Social Policy

Robert H. Haveman

Over the past decade, the economies of western, industrialized countries have moved along two distinct tracks, neither of which offers a compelling model for current policy. The economies of North America, the United Kingdom, and Australia have been creating lots of jobs but suffering from wage stagnation and growing inequality; those in western Europe have featured growing wages and more modest income gaps but have been far less successful at job generation.

Must the choice be between North American wage stagnation and western European double-digit unemployment? Or might there be a way to combine jobs with decent compensation for workers, low poverty rates with fiscal control—that is, equity with employment?

I think better performance is possible, and will require enactment of a number of new policy measures. Here, I suggest measures that focus on redirecting welfare programs in both western Europe and North America. This new, multifaceted strategy, which brings together a variety of current reform proposals, enables social policy and labor markets to be mutually supportive rather than working at cross purposes.

Social policy would protect people from destitution without undermining incentives to work; labor markets would generate jobs; compensation of the most disadvantaged workers would be augmented; and work would be the principal source of income.

Two Tracks

All larger and more industrialized western nations now have complex and financially costly systems of income protection. Despite substantial variations across countries, these systems share certain basic elements: unemployment, disability, and retirement programs; a welfare system; minimum wage policy; and employment regulations.

To be sure, the comprehensive and generous social safety net seen in some of these countries reduces income poverty, moderates the wage disparities resulting from unfettered markets, and protects workers from income losses due to illness, disability, unemployment, retirement, and family breakups. Moreover, employment protection measures may foster long-term employer–employee relationships (and associated training and productivity benefits) and job search and efficient employment matches.
Greetings from La Follette! As we start another academic year, we’re excited about our upcoming projects and the activities associated with our teaching, outreach, and research. Two of our faculty members who were away last year—Bob Haveman and Bobbi Wolfe—have returned for 1997-98. You will find Bob’s latest research excerpted in this issue of the Policy Report.

Several other faculty members are on leave this year, and we are already missing them. Karl Scholz is serving as Deputy Assistant Secretary for Tax Policy in the U.S. Department of the Treasury, Peter Eisinger is at the Urban Affairs Institute at Wayne State University, and John Witte is teaching in Hungary.

We welcome two visiting lecturers to the Institute this fall—Paul Moberg from the Department of Preventive Medicine who is teaching a course on policy evaluation, and Paul Soglin, former Madison mayor, a course on privatization.

All of the La Follette faculty—and students as well—continue to be involved in sharing their research findings with government policymakers. As Welfare Works (W-2) begins the implementation phase, La Follette faculty members involved in social welfare policy have been extremely active. Michael Wiseman, for example, has also been working with the Blair government in the UK on issues of welfare reform there, and in the last week, the British Broadcasting Company has visited the Institute twice—to interview both Wiseman and Haveman.

Students in the Policy Analysis course, taught this past year by Andy Reschovsky, performed real-world policy analyses and made recommendations to Mayor Norquist in Milwaukee. The course has become very popular and is seen as an extremely valuable part of our two-year master’s degree program.

The Commission on Campaign Finance Reform, which I chaired, completed its work in May after a thorough, careful review of every point of view imaginable. A summary of the commission’s findings and a complete list of all fifty-four recommendations are included in this issue of the Policy Report.

This issue also includes a shortened version of a research report by Maria Cancian and Dan Meyer, her colleague at the Institute for Research on Poverty. Their findings highlight a growing role for fathers in divorce cases, which could have important implications.

At the request of the Institute for Wisconsin’s Future, a nonprofit organization in Milwaukee, Andy Reschovsky and Chad Reuter undertook a study of tax burdens in Wisconsin. Although much more research is needed (on the scale of the 1979 Wisconsin Tax Burden Study), major changes have occurred in recent years that merit the attention of policymakers.

Our article for the “back-to-front reader” in this issue is, once again, an economic forecast by Don Nichols. Nichols’s work is highly regarded by business and financial observers, and we are happy to offer an excerpt of it here.

Stapled into the middle of this issue of the Policy Report is a record of our recent major activities. We hope you’ll enjoy the report.
labor market prospects. From the 1970s to the 1990s, the jobless rate in this group in the United States increased by about one-third—from about 9 to about 12 percent. In the European Community, that rate has doubled over the same period, rising from about 7 to about 14 percent. These changes in unemployment and jobless patterns appear to be related to changes in the generosity and accessibility of public income support programs in North America and western Europe.

Take the case of unemployment benefits. Between 1961 and 1991, six of twelve European Community countries increased the maximum period for which unemployment benefits are available; there was no increase in North America. A composite index of overall unemployment benefit generosity—taking account of both benefit levels and accessibility—provides an even crisper comparison. In 1961, the simple average of this generosity index in the European Community countries was 17.4; by 1991, it had climbed to 31.5—an 80 percent increase. In the Scandinavian countries (plus Austria and Switzerland), this same index increased more than fourfold, from 8.3 to 34.5. In contrast the simple average indicator for North America stood at 19.5 in both 1961 and 1991, while for the United States alone it fell from 17 to 11.

Other income support programs (e.g., early retirement and disability benefits) also enable working-age individuals to opt for nonwork or reciency status. Consider, then, the “replacement rate” for disability benefit programs. (The replacement rate is the percentage of previous income that is paid to disabled workers: a 50 percent replacement rate means that disabled workers get half their previous salary.)

Between 1974 and 1993, the simple average of replacement rates in European Community disability benefit programs increased slightly, from the mid-40s to the upper 40s. For the Scandinavian countries and Austria and Switzerland, the 1981 rate was 66 percent; by 1993, it had dropped to 61 percent. For North America, the replacement rate increased from the mid-20s in 1974 to about 30 percent in 1993. These differences in the absolute level of the replacement rate appear to be behaviorally important: in OECD countries the generosity of disability benefits as measured by the replacement rate substantially predis the percentage of those over age fifty-five who receive those benefits.

The picture with minimum wages is much the same. European Community countries with legislated minimum wages set this value much higher than in North America. For example, in the early 1990s the minimum wage in the Netherlands and France was over 50 percent of the average wage, while in North America it stood at roughly 35 percent. These patterns in income support, unemployment, and joblessness are striking but not shocking. One would expect that countries with the highest social protection and minimum wage levels would also face the strongest pressures to substitute capital and productivity-improving technology for labor. Such a substitution would in turn improve productivity and lead to more rapid wage growth in the high benefit, high unemployment countries of the European Community than in North America, with predictable results for inequality and poverty.

Here again the pattern is visible in the statistics: In the early postwar period in the United States, the real wage of the average worker grew roughly 2 percent per year; since the early 1970s, the average worker’s real hourly earnings have been virtually constant. The basic cause of the sharp decline in average earnings growth is the fall in the rate of productivity growth, to which gains in average compensation are ultimately tied. Since 1970 the 10 percent real wage growth of the United States contrasts with real wage growth of nearly 60 percent in the European Community; conversely, over the same period the nearly 60 percent employment increase in the United States compares with a small 10-15 percent increase in the European Community.

Most high-income, western economies have experienced growing labor market inequality since the late 1970s. Once more, however, the variations are striking. In North America, Australia, Japan, and the UK, the relative wage of low-skilled workers fell by 10-25 percent in the 1980s. In contrast, the relative wage of low-skilled workers in most continental European countries was roughly the same in 1980 and 1990, probably reflecting the higher relative minimum wage in these countries established either through legislation or bargaining.

The high and accessible level of income protection benefits and high minimum wages in Europe have successfully maintained a relatively low level of family income inequality, even in the face of rising unemployment and joblessness.

Poverty rates among the high income economies also vary widely. North America and the UK all have poverty rates well above average, while Austria, Belgium, Germany, Luxembourg, and the Netherlands have the lowest rates. Among the European countries, France, Ireland, Italy, Sweden, and the UK have rates close to the average, with France and Sweden at the low end of this group.

In sum, then, wage rates in Europe have been maintained by a variety of measures, including policies and collective bargaining arrangements that result in a high effective minimum wage (as a percent of the average wage). Moreover, income protection policies—unemployment, disability, and welfare benefits, and early retirement policies—are more accessible and generous in Europe than in North America. As a result, the declining relative European demand for new labor market entrants and other low-skilled workers has been revealed in high unemployment and joblessness rates, and in the increasing prevalence of long-term unemployment. Given the pattern of labor demand growth, the structure of income protection programs in the European countries has tended to create a poverty or joblessness trap for workers with low potential earnings.

In North America, a lower minimum wage, less generous and accessible social benefits, and, in general, lower hurdles to job creation have encouraged job growth for low-skilled workers. The overall unemployment rate has not shown an upward trend, and a high percentage of all workers occupy minimum wage, low earnings jobs. Wage rates and earnings have fallen substantially for low-skilled, poorly educated, young, and minority workers, and as a result wage rate and earnings inequality have grown substantially. Low minimum wages and weak social protection, among other factors, have led to a more than 30 percent increase in the U.S. poverty rate since the 1970s, and a more than 60 percent increase in the number of poor people.

Finally, in nearly all countries, unemployment and joblessness have become increasingly concentrated among youths and other low-skilled workers. While the incidence of joblessness and part-time work (especially for younger and minority male workers) has increased substan-
tially in North America since 1973, both of these indicators have increased more in the European Community.

A Third Way

The policy strategy I suggest would aim to meet three objectives: (1) to guarantee income support, but at a level that would not inhibit the willingness of people to work at prevailing market wages; (2) to increase employment opportunities for low-skilled labor and stimulate the willingness of workers to accept work at prevailing wages; and (3) to increase the monitoring of recipients in terms of unreported work and job search efforts, and improve aspects of program integration and administration.

An employment subsidy program

This component of the proposal rests on the view that most advanced countries face a situation where minorities, youth, older workers, disabled workers, and single mothers (all characterized by low levels of skill and education) face relatively bleak labor market opportunities. The sources of these poor prospects are complex, and involve a variety of constraints on labor market flexibility. Such constraints involve prevailing wage standards (including minimum wages), union contracts, and the fringe benefits and payroll taxes that businesses are required to pay for every standard worker. Because of these arrangements, employers do not find hiring low-skilled workers a profitable proposition.

The two-pronged program that I propose is aimed both at disadvantaged workers and those who hire them—at both the supply and the demand sides of the labor market. Its effect would be to alter the terms on which workers could be hired: that is, it would make hiring low-skilled workers a more profitable and attractive proposition than it is now. Both prongs of the policy are designed to offset constraints on labor demand from market rigidities (including minimum wages), to increase the employment of less-skilled workers, and to increase the returns to them from the work that they do. In the process, business costs would tend to fall, while output would tend to increase.

The first prong would entail an employer-based marginal employment subsidy. It would provide financial incentives to employers who hire low-skilled workers over and above the numbers they would otherwise hire. Such subsidy might, for example, work as follows: The government would provide a tax credit (or other financial subsidy) to any enterprise equal to 50 percent of the first $10,000 of wages paid to the fifty workers hired in a firm above 102 percent of the firm’s previous year’s employment. The numbers are of course somewhat arbitrary: the essential point is that the subsidy would be marginal in nature, affecting the decisions of firms regarding both the number of workers to hire and the composition of those new hires.

While this arrangement does not directly target workers according to their unemployment or poverty status, the subsidy is a higher percentage of the wages of low-skilled workers than it is for the more skilled. As a result, firms have an incentive to hire low-skilled workers, substituting them for higher-skilled employees or capital. By directly expanding the demand for low-wage workers, this program would contribute to a reduction of poverty and unemployment.

The New Jobs Tax Credit that was in place in the United States during the late 1970s could serve as a model for this program. Evaluations of this program concluded that it was a potent and cost-effective measure to increase employment of low-skilled workers. Analysts have suggested several modifications to its structure that would increase its employment-generating potential.

The second prong focuses on the low-skilled workers themselves. An employee-based wage rate subsidy program would be instituted for low-skilled, low-wage workers. Some portion of their wages would be subsidized by the government, increasing their take-home pay, hence providing an incentive to work more if already employed, or to seek work if not yet working.

The first step in establishing such a program is to stipulate a target wage rate through legislation. Then a per-hour subsidy equal to some percentage (the subsidy rate) of the difference between the target wage rate and the actual wage rate would be offered to all workers. Clearly, only low-wage workers would have their wage rate subsidized. For example, if the target wage rate were set at $8 per hour, and the subsidy rate at 0.5, a worker earning $5 per hour would receive a subsidy of $1.50 per hour ($1.50 is 0.5 of the difference between the target wage rate of $8 per hour and the actual $5 per hour wage). The “take-home” wage rate of that person would then be $6.50 per hour.

A wage rate subsidy is but one example of what have become known as “in-work benefits,” all of which are characterized by the provision of support only when accompanied by market work. Other examples include the Family Credit in the United Kingdom, the Danish and Dutch subsidies for work in markets that intensively employ low-skilled labor (e.g., home cleaning and lawn and garden work), and the Earned Income Tax Credit (EITC) in the United States.

The EITC, for example, provides a supplement of about 26 percent to earnings below $8,000 per year for families with one child, and 30 percent for families with more than one child. Beyond $8,000, the size of the supplement remains constant until earnings of $11,000, when it is reduced to 16.17 percent. The credit is totally phased out when earnings reach about $24,000. Clearly, the EITC has strong work incentives for lower-income families—especially those experiencing the “negative” marginal tax rate. But it reduces work incentives for the large number of families whose earnings are in the range where the subsidy is being phased out—$11,000 to $24,000. Offsetting this disincentive effect is the positive work effect of the incentive to move from joblessness to employment.

The new labor market environment generated by this two-pronged, supply-side and demand-side policy proposal would improve the employment prospects of disadvantaged workers by continued on p. 12
Who Gets Custody in Wisconsin?

Maria Cancian and Daniel R. Meyer

Maria Cancian is assistant professor in the School of Social Work and the La Follette Institute and is also affiliated with the Institute for Research on Poverty, and the Center for Demography and Ecology. Daniel R. Meyer is associate professor in the School of Social Work and is affiliated with the Institute for Research on Poverty. Their research was supported in part by a contract between the Wisconsin Department of Workforce Development and the Institute for Research on Poverty. The authors thank Mei-Chen Hu and Karen Ryan for research assistance, Pat Brown and Margo Melli for helpful conversations on related topics, and Judith Seltzer and Robert Willis for helpful comments on a previous draft. The full paper, available from the authors, discusses multivariate analysis in greater detail.

As divorce among families with children has become more common, and as the economic vulnerability of single-parent families has received greater attention, policymakers and researchers have become increasingly interested in what happens to children in families that divorce.

A growing body of research is documenting the economic arrangements in divorced families, particularly whether child support is being ordered and paid. But nearly all of the child support research has focused on the most common arrangement, children living with their mothers. Nonetheless, some recent research shows increases in arrangements in which fathers play a more substantial role. In this article, we examine custody arrangements in recent Wisconsin divorces, exploring factors associated with shared custody as well as mother-only and father-only custody.

Understanding the factors related to changes in custody arrangements is important for a number of reasons. First, recent social policy changes reflect a growing interest in increasing the role of fathers, as well as mothers, in providing for their children. These policy changes include not only child support and custody reforms, but also a number of elements of the recent welfare reform. Second, changes in custody patterns may inform our understanding of changes in the division of labor and responsibility for children within married-couple families.

Finally, changes in custody patterns may have important implications for the economic well-being of children; prior work has shown that children in father-only families are substantially less likely to be poor than children in mother-only families. Moreover, theoretical models of child support suggest that one reason noncustodial parents do not always support their children is that they lack control over how the custodial parent spends the support payment. In particular, if fathers provide greater resources to their children when the child is in their custody, a trend toward shared custody may have important implications for the resources available to children.

Policy Context and Theory

When parents divorce, several formal legal decisions must be made, including where the child is to live (physical custody), who is to make major decisions about the child (legal custody), how assets will be divided, and whether there will be ongoing financial transfers (child support or alimony). These decisions are often initially negotiated by the parents out of court but in the context of the prevailing legal climate. In a divorce, a court then either approves the parents’ agreed-upon arrangement or orders an alternate arrangement.

In the colonial period in the United States, fathers were seen as having primary responsibility for their children, and the limited available evidence suggests that in the relatively rare event of divorce or separation fathers were often given custody of their children.

In the 1800s, however, this began to change. A doctrine of “tender years” developed, suggesting that mothers were better caretakers for children and should receive custody. By the twentieth century, and consistent with this doctrine, the dominant arrangement was one in which children lived with their mother. The explicit preference for mothers in custody determinations continued until the 1960s, when states began to remove the gender preferences in their custody statutes. The prevailing mode became one of “best interest,” in which courts were to determine where the child would live based on the option that was consistent with the best interests of the child. In practice, custody continued to be granted to the mother in the large majority of cases. More recently, many advocates have argued that following a divorce, children should spend substantial amounts of time with both parents. Over time, shared physical custody was legally recognized and in some states became a policy preference.

Some data on the frequency of various custody arrangements upon divorce in the 1980s are available. In three states (Wisconsin, Minnesota, and Michigan), researchers have found very similar results: physical custody was awarded solely to the mother in the vast majority of cases (89% in Wisconsin and Michigan, 81% in Minnesota), to the father in about 10 percent of the cases, and jointly to both parents in a small minority (2% in Wisconsin and Michigan, 6% in Minnesota). In two counties in California, shared physical custody appears to have been much more prevalent in the mid-1980s: custody was awarded to mothers in 67 percent of the cases, to fathers in 9 percent, and to both parents in 20 percent. The higher rate of shared physical custody in California may reflect a more liberal definition of shared custody, an explicit encouragement of shared physical custody in California law, or other factors.

While the vast majority of children still live with their mothers, fathers appear to be playing a larger role as shared physical custody increases. In one national study, the prevalence of joint custody in the 1988–89 period was estimated at 13 percent, although the term was imprecisely defined and so included both joint physical custody and joint legal custody.

Father-only custody may also be increasing: father-only families with children grew nationally by 42 percent in the 1980s, whereas mother-only families increased by 15 percent.

A 1992 account of divorces in two California counties in the mid-1980s showed that whereas about four-fifths of mothers reported to researchers that they had wanted sole physical custody, only one-third of fathers did so; another
one-third of fathers reported that they wanted shared physical custody and about one-third of fathers wanted the mother to have sole custody. But despite the apparent conflict in parents’ preferences, many fathers did not formally request either sole or shared custody. Thus physical custody was generally not contested: in almost 80 percent of the cases, the parents agreed upon which of them should receive physical custody. When custody was not contested, it was awarded in the way both parties initially requested in about 80 percent of the cases. When it was contested, the decision favored the mother about twice as often as the father.

### The Policymakers’ Challenge

What factors account for parents’ preferences regarding child custody and for courts’ judgments of the best interests of the child? What accounts for the increased role of fathers? Why, on the other hand, do mothers continue to have sole custody in the majority of cases despite legal changes that remove the explicit preference for maternal custody? Economic theories of the family provide one approach to addressing these questions as developed by Gary Becker. The standard neoclassical model of household production suggests that within marriage spouses gain from specialization. That is, if the father can earn a higher wage, it will be in the family’s interest for him to work in the labor market and for the mother to provide the primary care for children and engage in other “home production.” In the event that this couple divorces, this pattern of specialization may lead logically to mothers gaining sole custody of the children and fathers providing financial support in the form of alimony and child support.

As sociologists Daphne Spain and Suzanne Bianchi have argued, however, this description of the family has become less compelling as women, especially women with children, increase their labor force participation, and as the human capital investments and wages of women grow more similar to those of men. Even though research suggests that husbands have increased the time they devote to child care and other home production as wives have increased their time in the labor market, women continue to bear a disproportionate share of the burden of household tasks. Research by some scholars suggests that a mother will be more likely to have custody when she has a relative advantage in providing child care, while a father will be more likely to have custody when he has a relatively higher income.

### Changes in custody patterns may have important implications for the economic well-being of children.

Parents’ preferences and the courts’ judgments may also depend on other family commitments. Parents who have been previously married, or who have children from a previous marriage, may have less interest in providing custodial care for their children. The trade-offs between work and child care responsibilities, and the potential gains from specialization in market or home production, will also vary with the number and age of children. It may also be that the comparative advantage of mothers and fathers in raising children will vary with the gender of the child.

A few empirical studies have examined factors associated with the custody decision at divorce. Father custody is more likely where children are older or are boys and is less likely when the mother has a college degree. Findings are inconsistent regarding the father’s income. Some legal factors have been found to be important: when the husband was the plaintiff, he was more likely to be awarded custody. One national study of the characteristics of cases with joint custody (perhaps including both joint physical custody and joint legal custody) found that higher income was associated with shared physical custody, as was high education, being nonwhite, and living in a large city. In Wisconsin, equal shared physical custody was more likely when the father had high income and the mother had high income, and was also more likely in the mid-1980s than the early 1980s. In California, shared physical custody was also more likely when the father had high income, but the mother’s income was unrelated to the custody outcome.

### Data and Analysis Strategy

For our analysis, we used the Wisconsin Court Record Data (WCRD), a sample of cases coming to court in 21 Wisconsin counties. We selected divorce cases coming to court between 1986 and 1992 in which there was at least one minor child at the time of the final divorce judgment, in which physical custody could be determined, and in which the divorce action was brought by one or both of the parents—a total of 4,467 cases (see Table 1 for descriptive information on the sample on which our analysis was based).

When the court record did not include the income of one of the parties, we took personal income from state income tax records when available. For all analyses, we eliminated sixteen cases in which custody was awarded to someone other than a parent and 243 cases missing information on important independent variables. In our final analysis, we also excluded 135 cases in which at least one child was awarded to the mother and at least one child to the father (“split” custody), leaving us with a final sample of 4073 cases.

We analyzed physical custody, not legal custody. We differentiated between mother-only custody, father-only custody, equal shared custody, unequal shared custody (in which the child lives with one parent 30–49 percent of the time and the other parent 51–70 percent), and split custody (in which at least one child lives with the mother and at least one with the father). We used the 30 percent threshold to define unequal shared custody because this is the level at which a different child support formula takes effect in Wisconsin; common thresholds in other states are 25, 30 and 35 percent.

### Results

Figure 1 on page 8 shows the trends in child custody awarded between 1986 and 1994. Even over this relatively short period, there is a small but definite change in physical custody arrangements. In the earliest years mothers were awarded sole custody in 80.2 percent of the cases, a figure that falls to 73.7 by 1992–94.

Throughout the period father-only custody cases comprise about 10 percent of all cases, while split custody cases comprise about 3 percent. Thus the decline in mother-only custody primarily reflects increases in equal or unequal shared custody. By 1992–94, unequal
### TABLE 1

**Descriptive Information for Wisconsin Divorce Cases 1986-94**

(in percentages unless otherwise noted)

<table>
<thead>
<tr>
<th>Parents' Employment and Earnings</th>
<th>Mother Custody</th>
<th>Shared Custody</th>
<th>Father Custody</th>
<th>Split Custody</th>
<th>All</th>
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</thead>
<tbody>
<tr>
<td>Both employed</td>
<td>73.6</td>
<td>87.0</td>
<td>74.8</td>
<td>73.9</td>
<td>75.2</td>
</tr>
<tr>
<td>Only father employed</td>
<td>16.7</td>
<td>10.5</td>
<td>16.5</td>
<td>17.4</td>
<td>16.0</td>
</tr>
<tr>
<td>Only mother employed</td>
<td>5.9</td>
<td>2.0</td>
<td>5.1</td>
<td>4.4</td>
<td>5.3</td>
</tr>
<tr>
<td>Neither employed</td>
<td>3.8</td>
<td>0.5</td>
<td>3.6</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Mother received AFDC</td>
<td>25.4</td>
<td>14.5</td>
<td>14.0</td>
<td>20.0</td>
<td>23.0</td>
</tr>
<tr>
<td>Mother’s share of family income</td>
<td>40.4</td>
<td>37.8</td>
<td>31.0</td>
<td>33.8</td>
<td>39.0</td>
</tr>
<tr>
<td>Owns home</td>
<td>47.2</td>
<td>65.5</td>
<td>56.4</td>
<td>56.3</td>
<td>50.3</td>
</tr>
<tr>
<td>Average total family income ($)</td>
<td>42,837</td>
<td>51,063</td>
<td>41,577</td>
<td>42,370</td>
<td>43,622</td>
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<table>
<thead>
<tr>
<th>Prior Marital Status and Previous Children</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Father has other child(ren)</td>
<td>5.4</td>
<td>3.0</td>
<td>1.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Father has prior marriage</td>
<td>15.7</td>
<td>12.5</td>
<td>10.4</td>
<td>9.6</td>
</tr>
<tr>
<td>Mother has other child(ren)</td>
<td>7.8</td>
<td>8.3</td>
<td>10.4</td>
<td>6.0</td>
</tr>
<tr>
<td>Mother has prior marriage</td>
<td>12.3</td>
<td>15.7</td>
<td>14.2</td>
<td>11.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parents’ Average Age and Marriage Length (in years)</th>
<th>Marriage length</th>
<th>Mother’s age</th>
<th>Father’s age</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10.5</td>
<td>32.6</td>
<td>35.0</td>
</tr>
<tr>
<td></td>
<td>10.8</td>
<td>33.1</td>
<td>36.0</td>
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<tr>
<td></td>
<td>11.5</td>
<td>32.6</td>
<td>36.0</td>
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<tr>
<td></td>
<td>15.5</td>
<td>36.1</td>
<td>39.0</td>
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<tr>
<td></td>
<td>10.8</td>
<td>32.7</td>
<td>35.2</td>
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</tbody>
</table>

| Children | | | |
|----------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Minor children (actual number) | 1.8          | 1.8          | 1.8          | 2.6          | 1.8          |
| Youngest child (in years) | 6.5            | 6.6          | 7.6          | 9.5          | 6.7          |
| All children are boys | 34.0            | 42.2         | 40.2         | 14.1         | 34.7         |
| All children are girls | 34.0            | 30.6         | 27.0         | 8.3          | 32.2         |
| Both boys and girls | 32.0            | 27.0         | 33.0         | 77.0         | 33.0         |
| Only children age 11+ are boys | 11.5            | 14.1         | 19.5         | 23.8         | 12.9         |
| Only children age 11+ are girls | 12.0            | 10.6         | 13.5         | 20.5         | 12.3         |
| Both boys and girls age 11+ | 5.5             | 3.5          | 7.4          | 39.3         | 6.5          |
| No child age 11+ | 71.0            | 71.8         | 59.6         | 16.4         | 68.3         |

| Legal Process | | | |
|---------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Only father has lawyer | 6.1             | 12.3         | 35.2         | 8.9          | 9.7          |
| Only mother has lawyer | 31.0            | 13.4         | 5.5          | 22.2         | 26.4         |
| Both have lawyer | 50.7            | 64.6         | 50.1         | 62.2         | 52.5         |
| Neither has lawyer | 12.2            | 9.7          | 9.0          | 6.7          | 11.4         |
| Father is plaintiff | 18.0            | 28.0         | 60.0         | 23.0         | 23.7         |
| Mother is plaintiff | 73.0            | 56.0         | 27.0         | 64.0         | 66.1         |
| Both are plaintiffs | 9.0             | 16.0         | 13.0         | 13.0         | 10.2         |

| Time of Final Judgment | | | |
|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Years 1986-87 | 15.8             | 9.5          | 14.7         | 15.5         | 15.0         |
| Years 1988-90 | 53.7             | 50.2         | 54.5         | 45.9         | 53.2         |
| Years 1991-94 | 30.5             | 40.3         | 30.8         | 38.5         | 31.8         |
shared custody was awarded in 8.4 percent of cases, and equal shared custody in another 5.8 percent. These figures were 4 and 3 percent as recently as 1986–87.

We analyzed the probability of alternative custody outcomes and estimated the impact of parents’ employment and earnings, characteristics of their current and any previous marriages, the number, age and gender of children, and factors related to the legal process. We discuss only selected results here. The full analysis is discussed in a paper available from the authors.

Because split custody is an unusual outcome, our multivariate analysis compared mother custody, shared custody, and father custody. Our analysis of the data shows that employment status does not have a discernible impact on custody outcomes, except that cases in which only the father works are less likely to result in shared custody than cases in which both parents work, all else being equal. This may reflect the tendency for women who do not work to be primary caretakers and thus be more likely to request and receive sole custody. The probability of shared custody rises (at a decreasing rate) with total income, results largely consistent with prior research.

We found that the probability of shared custody declines when mothers have a higher share of the family income (but the effect is not significant at conventional levels). There is a strong relationship between relative income and father custody; when mothers have a higher share of family income, fathers are less likely to receive sole custody.

Previous marriages and children have the expected effects: a parent is less likely to be awarded custody when he or she has been previously married or has children from a previous relationship. In particular, the father having children from a previous relationship reduces the probability of shared custody or father-only custody (relative to mother-only custody). In a parallel way, the mother being previously married reduces the probability of mother-only custody.

The number of children in the family has no discernible direct effect on custody outcomes. In contrast, the age and gender of the children is associated with different outcomes. The presence of young children reduces the probability of the father being granted sole custody, even when the youngest child is between six and ten years old. In contrast, it appears to have little impact on the probability of shared custody. In families in which all the children are male, the parents are more likely to be awarded shared physical custody. If all the children over eleven are boys, fathers are more likely to be awarded sole custody. As discussed above, these results are generally consistent with previous estimates that find father-only custody more likely in families with older children and male children.

The relationship between legal representation and custody outcomes should be interpreted with care since preferences for custody outcomes by themselves may determine the type of legal representation the parent seeks. Nevertheless, legal representation has the expected effects: cases in which only the father has legal representation are more likely to result in shared or father-only custody, while cases in which only the mother is represented are more likely to result in mother-only custody. Mother-only custody is also more likely when the mother is the plaintiff, while father-only custody is more likely when the father is the plaintiff.

The year of final judgment does not appear to have an impact on the probability of father-only custody, a result consistent with the descriptive information which suggests very little change over time in the probability of this arrangement. In contrast, the probability of shared custody appears to be increasing over time. This result is consistent with the descriptive information presented above. We tested the possibility that income and characteristics of children had different impacts in the three different periods; the results suggest that interaction terms do not add substantially to the explanatory power of the model. We also conducted several sensitivity tests and found that alternative approaches produced consistent results. continued on p. 18
Campaign Finance Reform—Wisconsin Style

Following seven months of work, the Governor’s Blue-Ribbon Commission on Campaign Finance Reform, chaired by La Follette Director Donald Kettl, released its report to Governor Tommy Thompson on May 30, 1997. Commission members were David W. Adamany (President of Wayne State University); Robert H. Friebert (a Milwaukee attorney); James R. Klauser (a Madison attorney); Brandon Scholz (executive director of the Wisconsin Grocers Association), and Donald Kettl.

The Commission’s report is the product of nine meetings; public hearings in Milwaukee, Green Bay, and Madison; input from hundreds of citizens; a public opinion poll of Wisconsin residents; and extensive staff research. The commission makes fifty-four recommendations, which are printed on pages 14-16.

The text below is excerpted from the final report. The full report, as well as background information on the Commission’s work and on campaign finance reform elsewhere, is available on the La Follette Institute’s World Wide Web site: www.lafollette.wisc.edu/reform. Hard copies may be purchased for $3 (plus tax and handling) from the Office of Document Sales, Wisconsin Department of Administration. Their phone number is (608) 266-1608.

Especially since the closing weeks of the 1996 presidential election, the mass media in Wisconsin and throughout the nation have produced a constant drumbeat of campaign finance stories. The problems identified in the news coverage, as well as in watercooler and coffee-shop conversations, have raised concern about campaign finance reform to a level unprecedented since the Watergate scandals of the early 1970s.

To gauge citizens’ attitudes about campaign finance reform, the Commission arranged for the St. Norbert College Survey Center to conduct a public opinion survey of Wisconsin residents. The poll showed widespread concern about campaign finance and strong support for reform. Two-thirds of the respondents said that “the political election process is in big trouble.” But 86 percent believed that the problem is not “too far gone” and that “some reform will help.” More than 84 percent of those responding agreed that “I’d like to see sweeping and fundamental campaign finance reform.”

Although concern about campaign finance was high, however, other issues ranked higher. The poll showed that citizens ranked “reducing taxes in Wisconsin,” “reducing crime in Wisconsin,” and “protecting the environment in Wisconsin” almost equally important. Citizens believed that “improving highways in Wisconsin” was less important, followed by “reforming the way campaigns are financed in Wisconsin.”

Citizens believed that campaign finance reform was important—but that other problems were even more so. When the survey asked how important campaign finance ought to be when compared with other issues like taxes and foreign policy, only 13 percent of those responding believed that it ought to be more important. Just over 54 percent thought it was less important, while 31 percent gauged it as important.

What do these findings add up to? It is clear that the headlines about campaign finance abuses have upset citizens. But it is equally clear that bread-and-butter issues matter more.

Does this mean that the case for campaign finance reform is weak? The Commission has carefully studied the questions and emphatically believes that the answer is “no”—but that campaign finance reform is a different kind of public policy issue.

Campaign finance is not so much a “tear-out” issue. It is, rather, a “termites in the basement” problem. The electoral process—and the campaign finance process that supports it—forms the very foundation on which a vibrant and free democratic society is based. Problems! With other issues, like taxes and the environment, can be more obvious and demand more immediate attention. But if the foundation of democracy is allowed to erode, our society will be far less equipped to solve its most critical problems.

Campaign finance reform problems, left unsolved over time, will slowly but steadily eat away at citizens’ trust in their government and government’s capacity to solve citizens’ problems. That is the overwhelming message that the members of the Commission have taken from the public opinion poll, scores of hours of public input, and comments from hundreds of citizens. Campaign finance reform cannot in itself solve the problem of trust. But the Commission concludes that, without it, restoring public trust in government will be impossible.

The people of Wisconsin are far luckier than the citizens of other states. Those who built the state’s political system and framed its civic culture made it of sturdy stuff. Nevertheless, the Commission has concluded that important problems have emerged in the state’s campaign finance system that, quite simply, must be fixed.

This is a critical time in the state’s history. While new problems have emerged, there is still time to fix them before they worsen. Well-planned reforms can reaffirm Wisconsin’s place as a national leader in campaign finance—and in building a government that listens carefully to its people.

It would be a serious error, however, to view the problem casually or to tinker with reforms incrementally. Rebuilding public trust and confidence, if lost, would take monumental work. Small tensions in the system can quickly widen into major gaps that make it harder for political parties to work together effectively or to govern citizens well. The Commission has carefully considered the problems facing Wisconsin and has crafted a thorough and solid set of recommendations. They are not a menu from which to select some palatable fixes but, rather, an interlocking set of ideas, in which the whole is far stronger than the pieces.

The Commission urges, therefore, that its recommendations be considered and passed by the legislature as a complete package. It is critical that the state legislature avoid the urge to tinker with the package, to pull out the easiest or most attractive pieces, or to postpone serious consideration. The Commission’s recommendations are woven together with a single thread. Tugging on it anywhere could cause the whole fabric to unravel: to give unfair advantage to some players over others; to risk creating new loop-
holes; and to plant the seeds for new problems that future commissions will have to attack. Wisconsin’s citizens deserve nothing less than quick action from their elected officials in reviewing and passing the recommendations in this report.

**Money and Politics**

It is easy to point to “big money” as the problem of campaign finance. It is just as easy to overlook the important point that money has a positive value and great importance in politics. The ability of voters to know about and act on the choices they face depends on money: on candidates gaining the resources necessary to speak effectively to voters. Indeed, the U.S. Supreme Court has a two-decade-long tradition, based in *Buckley v. Valeo*, which puts substantial protections around the money used in political campaigns. Campaign money has become an important part of the First Amendment’s freedom of speech protections.

The central issue of campaign finance reform is balancing the necessary role of money in the political system with citizens’ interest in ensuring that the system is protected from undue influence by those with the most money. Money provides a meaningful voice to persons engaged in political campaigns; it shapes the strategies of campaigns and the means candidates use to talk with voters. But that leads to a central problem: controlling the supply and demand for money to preserve the ideals of an informed electorate, while avoiding both the appearance and the reality of elected officials being dominated and controlled by those successful in the economic system.

This is the problem that has most Preoccupied the members of the Governor’s Blue-Ribbon Commission on Campaign Finance Reform. Indeed, it is the biggest problem of a democratic system operating in a market economy. There is no perfect balance between these competing principles, and no balance that is struck by today’s laws can remain stable for long. No reform can possibly satisfy everyone, and no reform can work forever.

The Commission concludes that the conflict between these forces has nudged Wisconsin’s system out of balance and that fundamental reforms are therefore needed. The Commission has dedicated its efforts to rejuvenating the state’s democratic processes.

The time for reform is ripe. The need is great. The members of the Commission conclude unanimously that Wisconsin’s campaign finance system requires a comprehensive review and thorough reform.

**The Commission’s Findings**

The Commission has identified five central problems that must be solved. To attack these problems, the Commission has framed five basic principles.

1. *Ensuring full and immediate disclosure.* Too many parts of the campaign finance process have become invisible and accountable to voters. Citizens deserve the full and accurate facts about campaign finance, and they deserve that information before they vote.

2. *Making elections candidate- and party-centered.* The election process has drifted away from the candidates and parties. Citizens deserve a process that puts candidates for office and the parties they represent at the center of the campaign process, because they are accountable to the voters at the polls.

3. *Encouraging more competitive elections.* The high—and rising—cost of political campaigns has made elections less competitive. Citizens deserve to have a rich choice of candidates and opinions from which to choose in casting their ballots.

4. *Leveling the playing field.* Recent changes in campaign technology, especially the spread of campaign ads masquerading as “educational” ads, have created “stealth campaigns”—substantial advertising during the election season that has occurred independent of political parties and candidates’ campaigns. Many of these efforts have had significant effects on the electoral process, but the source of the money paying for the ads has frequently been hidden or unknown. These tactics have denied voters critical information about who is making which claims. Voters deserve the full facts before casting their ballots. Such information would promote, not hinder, speech. It would also level the playing field for everyone.

5. *Improving campaign finance regulation.* The state’s system of campaign finance regulation is seriously strained. Citizens deserve a prompt and effective system to enforce campaign finance laws and ensure clean elections.

In framing its recommendations, the Commission carefully reviewed hundreds of suggestions submitted by ordinary citizens and public officials alike. Indeed, no other group in recent Wisconsin memory has so carefully surveyed Wisconsinites before framing proposals. Some citizen proposals were deemed unworkable. Some proposals violated long-standing Constitutional protections of free speech. Others, the Commission feared, might unintentionally produce new loopholes that could worsen the problems. But all have been valuable in shaping the Commission’s work.

Wisconsin’s citizens have contributed a remarkable array of impassioned opinions and suggestions. In fact, it is an enormous testimony to the civic concern of the state’s citizens that the Commission has assembled such an amazing collection of ideas. (See Volume II of this report for the testimony and proposals citizens presented to the Commission.) The recommendations range from full public financing of all state elections to strong opposition to public financing, with full disclosure of campaign finance instead. With such disparate—indeed, completely contradictory—advice, the Commission’s recommendations are bound to disappoint many of those who participated in the process. There was no citizen consensus around which the Commission could have framed its recommendations.

Campaign finance is an extraordinarily complex process. It is, in fact, much like a football game, in which fans go to the stadium, watch the teams match wits and fight for advantage—but in the campaign game, the fans themselves determine the winner. Like football, most of the game’s deep strategizing happens in the locker room, far from public view. Presenting voters with a good contest requires ensuring that the complex locker room strategies are fair to all players.

To improve the game, some citizens proposed “single-bullet” solutions that, they believed, would solve critical problems. But as effective as Reggie White is at rushing opponents’ passers or Brett Favre is at finding the open receiver, no play on offense or defense can possibly work every time. There are too many ways to counter any single tactic—in football or in elections. Rather than seek
a single reform to solve all problems, the Commission has sought to craft a broad and comprehensive set of reforms.

As the Commission framed its recommendations, it relied on the considerable experience of its members. One of the commissioners is widely acknowledged as one of the nation’s foremost scholars on campaign finance reform. Three of the members have decades of experience in managing campaigns. The Commission built on this expertise as it prepared its report. The experience of its members provided a clear sense of which recommendations were most likely to be effective, which ones candidates were likely to ignore, and which ones would create new, unintended loopholes. The recommendations that follow thus represent not only the commissioners’ sense of which changes were most desirable. They also represent the recommendations that the commissioners believe are most likely to work. Reform ideas not well grounded in the realities of campaigns, the Commission concluded, would not serve the process well.

In proposing its recommendations, the Commission sought to follow three principles:

Preserve freedom of speech.
The bedrock of both law and principle in campaign finance is the First Amendment of the U.S. Constitution. The First Amendment’s protection of freedom of speech is one of the most revered liberties in the Bill of Rights. Free speech is rarely more important than in elections; the lively and vibrant exchange of ideas is the absolute cornerstone of elections in a free democracy. The Commission seeks to recommend campaign finance reforms that will preserve and, where possible, enhance freedom of speech.

Do no harm.
As they begin their professional lives, physicians take the Hippocratic oath. They swear to do no harm to their patients. The Commission is devoted to the same goal. Campaign finance is an enormously complex area with the possibilities limited only by the imagination of campaigners. It is frighteningly easy to create unintended loopholes and distortions in campaigns. Despite the manifest problems with current campaign finance reform practice in Wisconsin, the state nevertheless has a foundation of clean practice and a citizenry especially dedicated to clean elections that reformers in other states envy. The Commission has devoted itself to keeping what is good, changing what needs to be fixed, and avoiding doing anything that could undermine the current system’s strengths. As part of this effort, the Commission has focused on identifying and rooting out loopholes in current or proposed practice that could have dangerous effects. It has also subjected each of its recommendations to a careful examination to avoid, as much as possible, unintentional creation of new loopholes.

Neutrality with respect to outcomes.
Just as it is possible inadvertently to create loopholes in the system, it is also possible unintentionally to design reforms that advantage some players in the system over others. Democrats often seek funds from different sources than Republicans; Republicans sometimes use different campaign tactics than Democrats; and third-party candidates often operate very differently than the major political parties. In framing its recommendations, the Commission has quite self-consciously sought to avoid advantaging any player over another. The commissioners have subjected each recommendation to close examination to determine if it might distort the process.

Recommendations of the Commission

1. The Wisconsin campaign finance system ought to set as a goal the instantaneous reporting and disclosure of all relevant campaign finance information.

2. All candidates for state offices—both legislative races and statewide races—should be required to file full financial reports with the State Elections Board. Such reports should be filed electronically, using software certified by the Board, and instantaneously, within 24 hours of when financial transactions occur.

3. The State Elections Board should provide all campaigns for state office with copies of electronic filing software, at no cost to the campaigns. The State Elections Board should also offer all campaigns basic training in operating such software.

4. Electronic filing should be required for campaigns with contributions or expenditures greater than $20,000. This number should not be adjusted for inflation over time.

5. Candidates who participate in the state’s public funding grant system should be required to file electronically.

6. Campaigns with contributions or expenditures less than $20,000 should be allowed to file paper reports on the current reporting schedule. Electronic reporting from such campaigns should be required immediately when candidates cross the $20,000 threshold. The State Elections Board ought to issue regulations outlining the process for electronic filing of contributions and expenses received before the threshold was crossed.

7. Conduits, political action committees, and all other entities required to report their financial activities to the State Elections Board should be required to submit those reports electronically and instantaneously (within 24 hours of the financial activity), under the same rules as for candidates.

8. The State Elections Board should make electronically filed campaign finance information available on the Internet as soon as possible (and in any case within 24 hours) after receiving electronic reports.

9. All financial reports filed electronically by non-candidate organizations ought to be disclosed electronically as well.

10. All those making contributions to Wisconsin political campaigns, as well as PACs and groups engaged in independent expenditures and other election-oriented activities as defined in Chapter 5, ought to comply with the same rules, especially for disclosure, as Wisconsin citizens.

11. Every two years, the State Elections Board ought to review the contribution limits contained in the state elections laws. If the Board finds that the limits need to be increased, it should frame a proposal and present it with supporting information to the state legislature, which should consider and act on the Board’s recommendations.

12. Contribution limits by PACs to candidates’ races should be changed from the current standard (a percentage of the spending limit in a race) to a fixed dollar amount. The limits for each race should be: Governor—$45,000; Lieutenant Governor—$13,000; Attorney General—$22,000; Secretary of State—$9,000; State Treasurer—$9,000; School Superintendent—$9,000; Supreme Court—$9,000; Senate—$2,000; Assembly—$1,000.

13. Candidates should raise at least 35 percent of their income from individuals. Any public financing grant that they receive ought to be counted
generating ongoing job creation pressures at a reasonable cost. By targeting the additional employment on segments of the labor market with the most severe unemployment problems and the greatest susceptibility to “poverty trap” problems created by existing tax and transfer programs, employment and output could be increased without significant inflationary pressure. This labor market program would fundamentally alter the wage structure in private labor markets, raising the take-home pay of low-skilled workers relative to those with more secure positions in the labor market. It would reduce inequality in employment and earnings in a way that encourages independence, work, and initiative.

**A Credit income tax program**

In this program (which would require changes in the current income tax structure), a family’s income would be defined comprehensively, and a tax credit would be awarded to each living unit (or taxing unit) according to how large it is and who is in it. This credit would effectively guarantee a modest minimum income to families of perhaps two-thirds of the explicit or implicit poverty line in the country. Families with no other means of support would receive the full amount of the credit as a grant; those with low income would receive smaller net payments. Better-off families receive no net payment, and would pay positive taxes. This program would be integrated with the positive income tax, so as to yield a smooth marginal tax rate pattern. This low-guarantee plan would eliminate “hard-core” poverty because what is now the bottom tail of the nation’s income distribution would be cut off. But the assured minimum income would be a relatively low percentage of median income—indeed, well below accepted benefit levels for unemployment, disability, and retirement pension programs (and safety net welfare programs) in several European countries.

A central gain from this component of the proposal is the substantial increase in work incentives relative to those that now prevail in most countries with developed welfare systems. A universal credit income tax program would also strip away the complexity of current programs, and eliminate much of the stigma associated with welfare. With such a program integrated into the standard income tax structure, incomes would be taxed and support provided in a simple, open, universal, and just manner.

Reform proposals with just such programs at their heart have been recently debated in the United Kingdom. In his 1995 book, *Full Employment Regained*, Nobel Laureate James Meade suggests such an arrangement. Roger Douglas, former Finance Minister of New Zealand, has also included a Guaranteed Minimum Family Income in recent reform suggestions. Anthony Atkinson has proposed a basic income guarantee for the nonelderly population, conditional on participation (defined to include those who are working, sick though employed, unemployed though seeking work, in education or training, and caring for young, elderly and disabled). Commenting on these proposals, Samuel Brittan states that “if people are to be priced into work, whether through free market forces or direct intervention, there must be an adequate safety net for those whose earnings in the market place do not provide a reasonable standard of living.” The employment-centered social policy reform suggested here rests on just such a sentiment.

**Eliminating or scaling back current disability, unemployment, or welfare benefits**

The elimination or scaling back of these programs would free up budgetary resources to support the new programs, and would reduce the high work disincentives and the poverty/joblessness trap problems that constrain employment and growth. Even if these programs are maintained, the income support benefits available through them should be reduced, along with the taxes required to finance them. And, of utmost importance, the criteria for determining eligibility for benefits should be reviewed to ensure that support for those who could work and earn is not available. The remaining programs should be closely monitored for adherence to these criteria.

**Obstacles**

An employment-centered social policy such as this one would simultaneously provide income support to poor families and encourage work effort and individual responsibility. As with any new approach to policy, however, several obstacles stand in the way of enactment.

One problem is that its income guarantee falls well below the implicit income minimum provided by existing programs in countries with generous and accessible benefits. Clearly these high minimums would have to be reduced if a universal CIT substituted for existing programs. If countries seeking to attain employment-with-equity objectives are unable to significantly scale back the generosity of their benefit programs, an alternative approach is possible.

The level of the universal income guarantee in the CIT (or Nit) could be set at a rather low level (say, one-third of per capita median income), but people included in restricted categories—for example, the disabled or unemployed—could be made eligible for supplemental benefits in categorical programs. This two-tiered arrangement could establish a modest income floor and maintain work incentives. However, workers receiving benefits from programs in the special categories would not face the desirable work incentives that confront the remainder of the population; for them, something of a poverty trap would persist.

A second obstacle to the employment-based scheme is political. Individuals now receiving benefits in the unemployment, disability, and early retirement programs of countries with generous and easily accessible benefits—as well as those who expect to be beneficiaries in the future—would be adversely affected by the change. There is no easy way to assess the strength of this potential hurdle, though efforts to reframe social benefit programs by reducing replacement rates or tightening eligibility standards inevitably generate heated opposition from those who reflect the interests of beneficiaries, or who otherwise support the status quo. Road blockades in France by truck drivers demanding full retirement benefits at age 55, and mass strikes in Germany by workers who oppose modest reductions in very generous sick leave with pay provisions, are but two recent illustrations.

Perhaps the only way to blunt the force of such arguments for generous income transfers and public benefits is to make as vivid as possible the employment and efficiency toll that such systems and their incentives impose on the society as a whole. Such arguments, unfortunately, tend not to be persuasive in the face of those private interest that benefit from the generous systems in place. Here, then, may lie the ultimate dilemma.
How Fair is Wisconsin’s State Tax System?
Changes in the Distribution of Tax Burdens from 1974 to 1995

Andrew Reschovsky and Chad Reuter

This article is a brief version of a report that was prepared for the Institute for Wisconsin’s Future, Milwaukee, Wisconsin. Andrew Reschovsky is a professor in the Robert M. La Follette Institute of Public Affairs and the Department of Agricultural and Applied Economics at the University of Wisconsin-Madison. Chad Reuter is a research analyst for the Wisconsin Department of Transportation. He wrote the report while completing his master’s degree at the La Follette Institute. The authors would like to acknowledge the advice of Dennis Collier, Robert Haveman, Alice Honeywell, and Paula Voos. The opinions expressed in this report are those of the authors. Copies of the full report are available from the Institute for Wisconsin’s Future, 759 N. Milwaukee St., Suite 212, Milwaukee, WI 53202, (414) 963-9882.

The concept of fairness is elusive, and the characterization of any particular distribution of tax burdens as fair is fundamentally a value judgment. In this report we define tax burdens as the taxes individuals pay as a percentage of their incomes. Economists characterize a tax system as progressive if tax burdens rise as income rises and regressive if tax burdens are higher on individuals with low incomes than on individuals with high incomes.

No comprehensive study analyzing the distribution of tax burdens among Wisconsin residents has been conducted since the Wisconsin Department of Revenue (DOR) published the Wisconsin Tax Burden Study in 1979. That study, which relied on 1974 data, provided a comprehensive analysis of the distribution of tax burdens from all major state and local taxes used in Wisconsin. Since that time, the legislature has enacted major changes in a number of Wisconsin’s taxes.

These changes include a sharp drop in the top marginal income tax rate, an increase in the sales tax rate, and the introduction of a property tax credit. Over the past two decades, a number of major changes have also occurred in the state’s economy and in the composition of the state’s population that may well have affected the distribution of tax burdens. Examples of these changes include the growing importance of services and the rapid growth in single-parent families.

Figuring out whether the entire system of state and local taxes in Wisconsin has become more or less progressive over time is not possible without first conducting a full-blown study of state and local tax burdens using current data.

Our report draws upon results from a nationwide study of state tax systems in order to reach some conclusions about how the distribution of tax burdens from the individual income tax, the sales tax, and selected excise taxes have changed between 1974 and 1995. Although this report is not a substitute for a comprehensive tax burden study, our results provide valuable information about how major elements of our tax system have changed over the past couple of decades.

In 1996 Citizens for Tax Justice (CTJ), a Washington-based research and advocacy organization, in collaboration with the Institute on Taxation and Economic Policy (ITEP), published Who Pays: A Distributional Analysis of the Tax Systems in All 50 States. The CTJ-ITEP study used federal tax data supplemented with information provided by each state to determine the distribution across income classes of the state and local tax burdens faced by non-elderly married couples in each state.

Comparison of Studies

Because of methodological differences between that study and DOR’s, a direct comparison of the results of the CTJ-ITEP study and the DOR study is not possible. By adjusting the data in the DOR study, however, we have been able to compare the 1974 distribution of tax burdens for the most important state taxes to the distribution of burdens for the same taxes in 1995.

Thus we restrict our analysis to the taxes for which both the DOR and the CTJ-ITEP studies use identical incidence assumptions, namely the individual income tax, the general sales tax, and excise taxes on motor fuels, cigarettes, other tobacco products, liquor and wine, and beer. The State of Wisconsin has estimated that in fiscal year 1998, these taxes will account for 88 percent of general fund tax collections. Our analysis thus allows a quite complete picture of changes in the distribution of state tax burdens.

Between 1974 and 1995, incomes in Wisconsin have grown dramatically. Over this 21-year period, personal income per capita has grown by 407 percent in nominal terms and by 132 percent in real terms after adjusting for inflation. The CTJ-ITEP study calculates the distribution of tax burdens in terms of relative incomes. In particular, the study ranks all non-elderly married couples in each state by income. The authors then calculate average tax burdens, defined as taxes as a percent of income, for the poorest 20 percent, and for the second, third, and fourth 20 percent.

Each 20 percent of the income distribution is referred to as a quintile—thus the first quintile refers to the poorest 20 percent of non-elderly couples. The CTJ-ITEP study divides couples in the top (richest) quintile into three groups—the bottom 15 percentage points (from the 80th to the 95th percentile of the entire income distribution), the next 4 percentage points (from the 95th to the 99th percentile of the income distribution), and the top 1 percent of the income distribution. The DOR study presents data on tax burdens for income classes based on 1974 income.

To make the DOR study comparable to the CTJ-ITEP study, we converted 1974 incomes to 1995 levels, assigned couples to income quintiles, and calculated average tax burdens for each quintile. Figure 1 summarizes the results of our analysis. The figure illustrates the distribution of average tax burdens from the sum of individual income, sales, and selected excise taxes for non-elderly married couples in 1974 and 1995.

The data indicate that not only have average tax burdens risen slightly over time, but also that the tax system has become somewhat less progressive over
this period. In 1974 this group of taxes was progressive over the bottom 95 percent of the income distribution. By 1995 progressivity over the middle of the income distribution no longer existed, with the distribution of burden being more or less proportional to income over the top 80 percent of the income distribution.

Another key finding is that while the tax burden on the poor continues to be high, the largest increase in the tax burden was felt by middle-income families. Taking into account the ability of upper-income taxpayers to deduct their state income tax payments from their income subject to the federal income tax, high-income taxpayers face tax burdens that are about equal to the burdens on the poorest 20 percent of taxpayers.

**Results of the Comparison**

The progressivity of Wisconsin’s tax system has decreased over the last twenty years for several reasons. Changes in the economy and in the population of the state have resulted in changes in sources of income and in the pattern of spending that in turn influence the distribution of tax burdens.

The state legislature has also enacted tax law changes that directly affected the distribution of the tax burden. Tax law changes between 1974 and 1995 that have increased progressivity include the following.

- The change in the treatment of itemized deductions from a deduction to a credit.
- The increase in the standard deduction in the Wisconsin state income tax.
- Changing from itemized deductions for state and local taxes to a property tax/rent credit.
- The married couple credit, because it is primarily used by low- and middle-income taxpayers.
- Implementation of the federal Tax Reform Act of 1986, which reduced benefits from deductibility of state income taxes for high-income taxpayers.
- Enactment of the state’s Earned Income Tax Credit, which lowered the tax burden faced by taxpayers with the lowest incomes.

The following changes have reduced tax progressivity:

- Changes in the income tax rate and bracket structure, which have increased marginal tax rates on low-income taxpayers and decreased marginal tax rates on taxpayers with higher incomes.
- The exclusion of 60 percent of long-term capital gains, which benefits primarily high-income taxpayers because capital gains are highly concentrated among the wealthiest taxpayers.
- The rise in the general sales tax rate, which results in the largest increases in burdens on low- and moderate-income taxpayers.
- The increase in excise tax rates on cigarettes and gasoline, but decreased rates on liquor, wine, and beer. The result is a net increase in the regressivity of these excise taxes.

**Conclusion**

In this study, we have compared the distribution of tax burdens from Wisconsin’s individual income, sales, and excise taxes for non-elderly married couples for 1974 and 1995. If we define a tax system as progressive when tax burdens rise as income rises, then we can conclude that the state’s tax system has become somewhat less progressive over the past couple of decades.

In 1974 average tax burdens rose over the bottom 95 percent of the income distribution. In 1995 couples in the middle of the income distribution faced the highest tax burdens. Taking into account the ability of upper-income taxpayers to deduct their state income tax payments in the process of calculating their federal income tax liabilities, high-income taxpayers in 1995 faced tax burdens not much higher on average than the burdens on the poorest 20 percent.
Wisconsin has taken several steps to reduce tax burdens on its low-income residents. These steps have resulted in slightly lower tax burdens on the poorest 20 percent of non-elderly married couples in 1995 as compared to 1974. However, the average tax burden on the middle 60 percent of couples is now considerably higher than it was in 1974. Even before consideration of the deductibility of the state income tax, couples with incomes between $30,000 and $43,000 (those in the second quintile of the income distribution) face the same average burden as taxpayers in the top five percent of the income distribution.

The Wisconsin tax system could be changed in ways that would reduce burdens on those with moderate incomes and increase burdens on those with the greatest ability to pay. One way to achieve these goals would be to increase the graduation of the income tax schedule. Under current law, married couples filing joint returns face a marginal tax rate of 4.9 percent on taxable income (defined as gross income minus the standard deduction) below $10,000, a rate of 6.55 percent on taxable income between $10,000 and $20,000, and a rate of 6.93 percent on all income above $20,000.

Income tax progressivity could be increased by reducing marginal rates on taxable incomes below $20,000 and by increasing rates on higher incomes. To guarantee that inflation doesn’t erode tax progressivity, the income tax rates, income brackets, and deductions could be indexed to reflect increases in the Consumer Price Index. We have estimated that three additional income brackets and rates (namely, a rate of 7.43 percent on taxable incomes between $40,000 and $60,000, a rate of 7.93 percent on incomes between $60,000 and $100,000, and a rate of 8.43 percent on incomes above $100,000) would increase revenues by $235 million in fiscal year 1998. This additional revenue could be used to offset the revenue losses created by lowering marginal rates on low-income taxpayers and by implementing indexation.

To target income tax reductions to taxpayers in the bottom half of the income distribution, the standard deduction could be increased. Under the current system, taxpayers whose incomes are above the income threshold for the earned income tax credit face quite high average tax rates. Increasing the standard deduction from its current maximum value of $8,900 would be an effective way of reducing income tax liabilities for these low-income taxpayers. An increase in the school property tax/rent credit would increase the progressivity of the income tax as well. Increasing the percentage of deductible property taxes or rent paid will benefit primarily low- and middle-income taxpayers. Finally, the exclusion of 60 percent of capital gains primarily benefits high-income taxpayers. Eliminating or substantially reducing the capital gains exclusion will enhance progressivity at the upper end of the income distribution.

Increasing sales and excise tax rates will tend to decrease regressivity of the state tax system. It may be possible, however, to expand the sales tax base in ways that will shield most low-income taxpayers from increased tax burdens. For example, the expansion of the sales tax base to cover a number of currently exempt goods and services is likely to result in an increase in tax progressivity. Possible candidates for sales tax base expansion include legal, accounting, and architectural services purchased by individuals; newspapers and periodicals; health clubs; veterinary services for pets; beauticians and barber services; and dry cleaning.

Further Research
This study has provided only a partial analysis of changes in the distribution of tax burdens in Wisconsin. Data limitations restricted our analysis to non-elderly married couples and to a subset of all the taxes paid by Wisconsin residents. Although our study includes consideration of the taxes that provide the lion’s share of state government revenue, our inability to assess changes in the distribution of property tax burdens forces us to ignore completely the financing of local governments.

The 1979 Wisconsin Tax Burden Study provided a rigorous and comprehensive analysis of the distribution of tax burdens in Wisconsin. The influence of that study was felt well beyond the borders of the state. The study provided a model for conducting similar analyses in other states. It is now time to conduct a new, comprehensive study of the distribution of tax burdens in Wisconsin. As we have tried to demonstrate, much has happened since 1974. The distribution of tax burdens has clearly changed since then. In order to make good tax policy in Wisconsin, we need to know much more about who pays taxes in Wisconsin.

Be a globe trotter. See the La Follette Institute on the World Wide Web. . .

Among the recommendations made by the Governor’s Blue-Ribbon Commission on Campaign Finance Reform was the establishment of a reporting system for political contributions that would be easily accessible to the general public. To show how that would work, we set up a site and linked to it from the main La Follette homepage. From that location, viewers may check on the amounts and sources of contributions to candidates for state office.

Also available on the campaign finance reform site are: minutes of the meetings, brief biographies of the commissioners, and an interactive site which was used by a wide range of viewers to share their thoughts on various aspects of campaign finance reform with the commissioners. The final, full report of the commission is also there.

Another increasingly popular use of the web is by faculty members to enhance the learning experience in courses. With a grant from the University of Wisconsin–Madison’s Division of Information Technology, Dennis Dresang was able to set up a site for his public personnel management course. On it, he has posted: (1) a site for online discussions of readings, which then allow class meetings to begin at a higher level than would otherwise be the case; (2) outlines and/or slides of the topics to be covered in each class; and (3) hot links to court cases, associations, government agencies, and job sources in the fifty states. These sites are used for class exercises as well as for students’ own professional enhancement.

Although our website is perennially “under construction,” we urge readers to look to our site for news about and interaction with the Institute’s students, faculty, and staff.

http:// www.lafollette.wisc.edu
against the 65 percent of the contributions they can collect from sources other than individuals.

14. PAC-to-PAC transfers of more than $100 ought to be prohibited.

15. Candidate-to-party and candidate-to-candidate contributions ought to be prohibited, except for contributions covering the actual cost of events, up to $100 per event.

16. The legislative campaign committees in the Assembly and Senate ought to be abolished.

17. Building a workable and effective public grant system will require adequate funding. The Commission concludes that the state legislature should create a Clean Election System, at $1 per year per voting age person, and provide a means for funding it.

18. For legislative races, the Wisconsin Clean Election System should make public funding grants available to candidates during the general election campaign: $15,000 for the Assembly; and $35,000 for the Senate.

19. Candidates who accept the public grants should be limited in the total they can spend during the election.

20. The Wisconsin Clean Election System should make public financing grants available for statewide races in the general election campaign: $87,500 for Superintendent of Public Instruction, Secretary of State and State Treasurer candidates; $100,000 for State Supreme Court candidates; $187,500 for Attorney General candidates; $281,250 for Lieutenant Governor candidates and $875,000 for Governor candidates.

21. Candidates who accept the public grant ought to be limited in the following spending limits: $350,000 for Superintendent of Public Instruction, Secretary of State, and State Treasurer; $400,000 for State Supreme Court; $750,000 for Attorney General; $1,125,000 for Lieutenant Governor; and $3.5 million for Governor.

22. A candidate is eligible to apply for a public financing grant if the candidate is representing a party that, at the preceding general election, won 6 percent of the vote cast for all candidates on all ballots for the office.

23. Both the public funding grant and the spending limit for each race ought to be adjusted every two years according to two factors, each weighted equally: increases in the cost of living, as measured by the federal government’s consumer price index (as it may be adjusted); and increases in the state’s voting age population, as determined by the Federal Election Commission.

24. If a candidate’s opponent chooses not to take part in the public financing grant system: the candidate’s spending limit is removed; and the candidate receives a pro rata share of the grants not used for other candidates running in the same category of election campaigns. There will be four categories of election campaigns: (a) Assembly; (b) Senate; (c) State Supreme Court and Superintendent of Public Instruction; (d) Governor, Lieutenant Governor, Attorney General, Secretary of State, and State Treasurer. All grants that are unused ought to be distributed equally within each category, to all candidates who participate in the Wisconsin Clean Election System by accepting public grants and spending limits.

25. For Category C races: In each year when there is an election for State Supreme Court justice and/or Superintendent of Public Instruction, the money for which candidates would be eligible, but which those candidates have rejected, would be placed into a pool. Half of the pool of unused grants would be redistributed to candidates who accepted grants. The balance would remain in the pool for the next year in which a Category C election occurred.

26. For Category D races: the unused grants of Category D candidates would become a single pool and would be distributed to each other in the same ratios to the various candidates who take their grants as their grants are to one another.

27. Candidates who are unopposed should not receive public grants.

28. Mass activities—television commercials, radio commercials, mass mailings, and central telephone banks—that occur within 30 days before an election or primary, and which include the name or likeness of a candidate for office, should be considered an election-oriented activity.

29. All mass media activities by any individual or organization that exceed $1,000 and that are defined as election-oriented must be registered. The registration must include the name of the candidate involved in the activity. Contributions and expenditures should be reportable in the same way as are contributions to and expenditures made by candidates. Disclosure must occur within 24 hours of making total expenditure above the $1,000 ceiling.

30. Mass media activities funded by any one organization that exceed the $20,000 contribution or expenditure threshold established for candidates must be electronically filed, according to the same standards set for candidates and other campaign-related organizations.

31. Candidates will be allowed to defend themselves from such election-oriented mass activities if such activity directed against them or in favor of their opponents exceeds 5 percent of the candidate’s spending ceiling in the race. There ought to be separate triggers for the primary and general elections.

32. The following defenses should be allowed for all candidates in any race that exceeds the 5 percent threshold for election-oriented mass activities: (a) removal of the spending limits for all candidates; (b) doubling of the contribution limits for all candidates; and (c) removal of all limits on transfers from the candidates’ political parties to the candidates.

33. If the courts uphold the State Elections Board’s position that some issue advocacy activities during the 1996 election cycle were, in fact, electoral activities, the Board ought to immediately adopt new rules defining the range of permissible activities and the requirements for those who engage in election-oriented mass activity in election season. The state legislature should also thoroughly review Wisconsin’s campaign finance laws and make changes to comply with the courts’ ruling.

34. The State Elections Board ought to vigorously monitor and regulate these issue-oriented activities—and the others within its jurisdiction. The Board ought to engage in more thorough fact finding and in rule making to chart the range of permissible activities. If the Board believes that new election-oriented mass activities require new legislation, the Board should recommend to the state legislature what kind of legislation is needed.

35. Tough penalties ought to be imposed on any individual or organization violating the provisions of this section. The penalties need to be tough enough to ensure
compliance and discourage speculation that the fines are a small price to pay for the advantage such election-based activity can bring.

36. The state Elections Board ought to consist of 8 members, each appointed by the governor to serve staggered 4-year terms; one member selected by the governor; one member designated by each of the following—the speaker of the Assembly, the Senate majority leader, and the minority leader in each house of the legislature; and three nonpartisan members.

37. The three nonpartisan members should be appointed by the governor and confirmed by the Senate, according to criteria defined for members of the State Ethics Board.4 No nonpartisan member may hold any other office or employment in the state or any local government of Wisconsin; no nonpartisan member, for one year prior to the date of appointment or during service on the board, may have been a member of a political party, an officer or member of a committee in any partisan political club or organization, or a candidate for any partisan elective office; and no nonpartisan member may become a candidate for or hold any such office while serving on the board.5

38. The Board’s principal function ought to be formulating basic policy and overseeing the work of its staff in executing that policy.

39. A new position of Election Examiner ought to be created. The Election Examiner ought to be responsible for conducting hearings to determine the facts on questions dealing with state election laws; and to rule on the application of laws as they fit the facts.

40. The State Division of Hearings and Appeals ought to designate hearing officers to serve, as needed, as Election Examiners. Especially during elections season, the Division ought to make available a sufficient number of Election Examiners to ensure quick and clear decisions.

41. The Board ought to hear any appeals of the Election Examiner’s decisions; review the Election Examiner’s findings; and work with the Election Examiner to clarify and improve the administration of Wisconsin’s election laws.

42. The state should provide the State Elections Board with the technical resources required to implement the electronic filing and disclosure system recommended by the Commission. The state should also supply the State Elections Board with the up-to-date equipment required to manage state election laws adequately.

43. The state should provide the State Elections Board with the technical experts required to cope with the Board’s changing responsibilities. Not all of the experts need be full-time employees of the Board; private contractors could be employed to satisfy some of the needs. But providing the necessary expertise is essential if the administration of the state’s election laws is to be effective.

44. The legislature should review the process for detecting and penalizing violation of state election laws. Violations ought to be quickly detected and firmly punished, so that Wisconsin’s voters can have full confidence in the election system.

45. The legislature ought to allow counties and cities of the first class the option to pursue the option of creating their own public finance grant systems. If any of these governments creates such a system, the State Elections Board ought to monitor its operations and then consider whether to recommend that such an option be extended to other communities in Wisconsin.

46. All campaign finance legislation and regulation should be written in a clear and intelligible style that prevents ambiguity and promotes trust in the system.

47. Any surplus remaining in a candidate’s campaign treasury should be counted against both spending and contribution limits for the next campaign cycle. The contributions would be counted toward the limits in the next campaign in the reverse order in which they were received: the last contributions received would be the first applied toward the limits in the next campaign.

48. Candidates who accept public grants and who have a surplus in their campaign treasuries at the end of a campaign must repay the state treasury for the amount of the public grant, up to the amount of their campaign surpluses.

49. Transfers of campaign treasury balances to campaigns for offices different from the one for which the original contributions were made should be prohibited.

50. All financial instruments, including checks, that are collected through bundling must include the name of the recipient, the amount, and the date of the contribution.

51. The contributor to a conduit should be required to make a written direction of how the contribution should be used. The direction should include the name of the recipient, the amount to be contributed, and the date of the contribution. The State Elections Board should prescribe the form on which the written direction of the donor’s purpose will be recorded.

52. None of the documents involved in bundling and conduits should be post-dated. All items should be filled in by the contributor, not an intermediary. And money should be sent to the recipient within five days of the date of the document or financial instrument.

53. The State Elections Board ought to conduct a biennial review of Wisconsin’s campaign finance practices. In a report to be submitted to the legislature, the Board ought to assess: contribution limits, and whether they need to be increased; important problems that require legislative attention; and whether a new blue-ribbon commission is needed to review the state’s campaign finance laws.

54. A new blue-ribbon commission on campaign finance reform should be created by the Governor and legislature when changing electoral dynamics and campaign technology demand it.

Notes
1. Commissioner Friebert: Since the Secretary of State and the State Treasurer are not policymaking offices, in my opinion, the Wisconsin Clean Election System should only provide $25,000 to those campaigns and the spending limit should be $100,000 for those two offices.

2. At its meetings, the Commission never explicitly considered including newspaper advertisements and mass pamphletting by persons who are paid to pamphlet as mass activities. However, Commissioners Adamany, Friebert, and Kettl agree that the definition ought to be broadened to include these activities.

3. Commissioner Friebert: I believe that defenses ought to be available when PACs engage in independent expenditures that exceed the 5 percent threshold.


5. Commissioner Adamany believes that the State Elections Board should nominate the three nonpartisan members.
Nursing Home Expectations

by Karen Holden, Timothy McBride, and Maria Perozek

The following summary is of a paper published by the Journal of Gerontology: Social Sciences, published by The Gerontological Society of America, the national organization of professionals working in the field of aging. Karen Holden is Associate Director and Professor of Consumer Sciences at the La Follette Institute of Public Affairs; Timothy McBride is with the Department of Economics and Public Policy Administration Program, University of Missouri-St. Louis; Maria Perozek is with the Federal Reserve Board in Washington, D.C.

Individuals in their 50s and early 60s, decades before they are likely to actually enter a nursing home, appear to understand the factors that will eventually increase or lower their risk of nursing home use. Our study shows that, when asked about the chances they will enter a nursing home sometime in the future, individuals shape their assessment of that risk based on the same factors we know do raise or lower the chances of nursing home use among the very old.

Nursing home expectations for men and women differ in ways that are consistent with their probable determinants of actual future use. In particular, while expectations on nursing home use are on average the same for women and men, the underlying process that shapes those expectations takes account of different factors. Married men, who are likely to die before their spouses, for example, have relatively low expected probabilities of nursing home use. Women take children into account when forming their expectations.

This study suggests that planners could use data on expectations of nursing home use to predict the future demand for nursing home use. Nursing home use is not a random concern across the U.S. population. Rather, individuals have some idea of the factors that will cause them to enter a nursing home. The logic behind these expectations suggests that both insurance purchases (especially of long-term care insurance) and the savings behavior of younger population groups may also be rationally shaped by these concerns.

Conclusion

While mother-only physical custody remains the dominant arrangement following divorce, our results suggest that there has been a small but important increase in fathers and mothers sharing custody in recent years. Consistent with earlier studies, we find that the probability of shared custody increases with income and is more likely among couples who own a home. This may reflect economic realities: shared custody is a more expensive outcome in that both parents typically need bedroom space for the children, other items need to be available at both houses, and there is greater need for regular transportation. In contrast, we find that the probability of father custody declines with income.

These results contrast with some predictions of standard economic theory, which suggests that mothers who do not work outside the home may be specializing in home production, and thus the family may choose to have them as primary caretakers after divorce. However, while mothers without income are slightly more likely to receive custody than mothers with low earnings, the effect is not very large. Moreover, at other levels of income, holding fathers’ income constant, mothers who earn more are not less likely to receive custody than mothers with low earnings, the effect is not very large. Moreover, at other levels of income, holding fathers’ income constant, mothers who earn more are not less likely to receive custody, and indeed, fathers are less likely to receive sole custody. This finding is important, that mothers are more able to gain a share of custody (either full or shared) when they have a higher share of the couple’s economic resources. The findings suggest that any theory of custody that implicitly assumes cooperative parents may miss an important feature of the custody process. In a noncooperative context, control over economic resources may help in achieving the desired custody outcome.

The children’s age and gender are associated with custody outcomes, with older children and boys more likely to go to the father and all-boy families more likely to have shared custody. But this finding opens new questions that could not be answered by these data: is this due to parental preferences (fathers feeling more comfortable with boys and older children, mothers feeling less comfortable with older boys), to children’s preferences, to the court’s imposition, or to the economics of caring for children of different ages?

We found no increase in the prevalence of father-only custody over the 1986-1994 period, nor do we find an increase when we examine custody outcomes among Wisconsin divorces between 1980 and 1986. This is in contrast to the recent work examining national census data between 1980 and 1990, which finds increases both in the number and in the proportion of single-parent families that are headed by fathers. While several factors may contribute to this difference, this result points to the possibility that a portion of the increase in father-only families apparent in survey data may reflect an increase in the number of fathers with shared custody.

Future Research

Given the increasing prevalence of shared custody, the determinants and implications of alternative custody arrangements deserve further study. Research focusing on the effects on children of living in alternative arrangements is of obvious importance. Other research could consider the interaction between custody and child support and the implications for policymaking. For example, to what extent do alternative child support policies change the incentives for parents to pursue different living arrangements for children? Some analysts have speculated that a parent expecting high child support orders may be more motivated to pursue shared or father-only custody. An exploratory analysis suggests that expected child support awards had no discernible impact on custody outcomes, but this issue deserves further attention.

Another issue concerns the longevity of initial custody arrangements. Recent data from California show substantial change in where children live shortly after a divorce petition is filed compared to where they live two years later. Arrangements in which children spent significant amounts of time with fathers were particularly unstable; almost half of the children who began in “dual residence” and 30 percent of children who initially lived only with their father moved to some other residence arrangement. By contrast, 16 percent of children who initially lived only with their mother moved. This suggests the importance of further research on the long-term implications of custody awards for father’s roles and children’s living arrangements.
Economic Outlook for 1997-98: Rational Exuberance in an Era of Strong Growth

by Donald A. Nichols

Economics Professor Donald Nichols is director of the La Follette Institute’s Center on the Wisconsin Economy and of the Initiative for World Affairs and the Global Economy. He is a frequent adviser to business and banking groups, including the Federal Reserve Bank of Chicago. The following piece is an excerpt from his most recent forecast, published as a La Follette Issues Paper, available free of charge upon request.

The U.S. economy continues to generate a stream of unusually good news, and each piece of good news seems to provide the foundation for further good news. Consumers and investors remain highly optimistic about the future, and their spending decisions reflect their optimism. Their spending has produced strong growth, and the strong growth has been part of the good news that has generated the optimism that has supported the spending.

When the stock market trembled earlier this year, Fed Chairman Alan Greenspan stated its performance was a result of “irrational exuberance.” My view is that while optimism about the economy is justified, firms, households, and governments should all have a plan for what they would do in a downturn. If they do, then the collective exuberance is less likely to be irrational. Four events of the past summer deserve attention.

The Stock Market
Part of the recent increase in stock values has been a result of the unusually large growth in profits in recent years. Exuberance over this growth so far is rational.

National Income Accounts data suggest that at least part of this growth is the result of a large, once-in-a-generation decline in interest rates. That is, the growth in profits has come at the expense of interest income, not through productivity increases, which might be reflected in a decline in the share of wage income. Because the decline in interest rates may well be over, future earnings growth will be much harder to attain than past growth was. Furthermore, profit growth will be restrained by the soaring dollar. Prices of American products will come under increasing pressure from imports. As a result, profits in some companies may fall.

Wage inflation, which has been remarkably restrained in recent years, may reappear. This is to be expected in an economy so close to full employment. In the past, employment at current levels has been accompanied by increased wage inflation, as labor has successfully demanded wage increases when shortages of workers have become evident.

The question arises: If profits start to grow more slowly, will stock prices fall? While no one can predict when the market will finally reach a peak, everyone knows that there will come a time to sell. No one knows when that time will be.

It’s possible that U.S. economic growth could be too strong, but that is the smaller of the potential problems. The larger one is the risk of irrational exuberance. Expectations of a strong economy have now been built into the behavior of businesses and households, so any disappointment with these expectations could set off a chain of behavior that would end in a major financial and economic decline. As long as exuberance continues to be rational, however, the forecast for the rest of 1997 and for 1998 remains unchanged from what it was several months ago: I anticipate real economic growth at a rate of two to two and a half percent for the coming period.
La Follette Students Practice Policy Analysis Skills in the City of Milwaukee, Division of Management and Budget

When twenty-eight or so students enroll in Public Affairs 869 (Policy Analysis) each spring semester, most have completed their first year in the La Follette program. They first study David Weimer and Aidan Vining’s Policy Analysis: Concepts and Practice and Eugene Bardach’s The Eight Step Path of Policy Analysis (A Handbook for Practice). They also hone their spreadsheet skills, practice memo writing, and undertake computer searches. They and their faculty advisers, however, know that here is no substitute for doing policy analysis as a means of learning it, so with their skills, they form groups and travel to Milwaukee.

Milwaukee city officials are continually searching for better ways to deliver city services and to lower costs. Under the guidance of Professor Andrew Reschovsky, La Follette students last spring prepared analyses of issues or problems suggested by the city’s Budget and Management Division, and presented their findings—orally and visually—to Mayor Norquist and the relevant agency officials. Students were assigned to one of five groups, and each group organized itself to do the necessary research and perform the appropriate analyses. The written version of their presentations is available upon request from the La Follette Institute’s publications department. Following is a brief description of the five projects.

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<tr>
<th>Project Description</th>
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<tr>
<td><strong>Right-of-Way Cost Recovery</strong> In this project, students proposed a methodology for reimbursing the City of Milwaukee for costs associated with installation of public utility and telecommunications infrastructure in the public right-of-way.</td>
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<td><strong>Reciprocal Borrowing Milwaukee Libraries</strong> Residents in the City of Milwaukee borrow more from suburban libraries than suburban residents borrow from Milwaukee city libraries. In 1997, this resulted in more than $1 million in reciprocal borrowing charges to the city. Students working on this issue analyzed the causes of the deficit and explored ways to reduce the payments to suburban libraries.</td>
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<td><strong>Police Vehicle Replacement</strong> The size of the Milwaukee police force has increased over the past several years while the ratio of squad cars to police officers has decreased. How to replace aging vehicles most efficiently, minimize the cost of maintaining the current fleet, and maximize the number of vehicles available for use at any time were questions that students analyzed for this project.</td>
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<td><strong>Brownfield Remediation</strong> In this project, students mapped the contaminated parcels of land in the City of Milwaukee to show the extent of the problem, then proposed a framework for economic assessment and suggested policies for encouraging private sector remediation.</td>
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<tr>
<td><strong>Expenditure Restraints</strong> A continuation of the project begun by the previous class of 869 students, this issue explored ways in which the state’s Expenditure Restraint Program can be changed to improve parity among cities in Wisconsin.</td>
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