

Demand for Adoption: The Case of Children in Foster Care

Mary Eschelbach Hansen
and
Bradley A. Hansen*

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ABSTRACT

We develop a model of the demand for the adoption of children from foster care, and we estimate the determinants of demand for adoption from foster care using data for fiscal years 1996 and 1997. We find that families are responsive to the subsidies offered to encourage adoptions from foster care. The price of adoption from foster care relative to its substitutes, including long-term foster care and intercountry adoption, also matters. In contrast, differences in child welfare spending do not explain differences in adoptions from foster care between the states.

I. INTRODUCTION

Of the 556,000 children in foster care at the end of fiscal year 2000, 131,000 children were waiting for adoptive homes. However, just 50,000 adoptions from foster care were finalized in fiscal year 2001.¹ At least 81,000 children waited into another year. The majority of the waiting children had been in foster care for more than 30 months. The children who were adopted in fiscal year 2001 waited an average of two years after becoming legally free for adoption before their adoption was finalized.² In each year since the mid-1970s, between 20 and 25 percent of children in foster care has needed an adoptive family, but despite growth in the number of adoptions in the U.S., the number of families who adopt through public agencies has never met more than about 40 percent of the need. Many of the waiting children are never adopted. This is not to say that adoption is rare.³ According to a recent survey on attitudes regarding adoption, about two of every three Americans adults report that their lives have been

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Authors: Mary Eschelbach Hansen: American University, Department of Economics, 4400 Mass. Ave. NW, Washington, DC, 20016, mhansen@american.edu. Mary Hansen is a Faculty Associate of the Center for Adoption Research, University of Massachusetts.

Bradley A. Hansen, Mary Washington College, Department of Economics, Fredericksburg, VA, 22401, bhansen@mwc.edu

¹ A child is “waiting” if her caseworker has reported her case goal as “adoption.” Case goals can include reunification with the birth family, guardianship, adoption, emancipation, and other goals. Maza (2002) describes the most recent data available from the Adoption and Foster Care Analysis Reporting System (AFCARS). Reports of the AFCARS data are available on the web at <http://naic.calib.gov> (last accessed on December 19, 2002).

² Maza (2002) reports that the median months in care for waiting children at the end of fiscal year 2000 was 35 months. The median months in care at the end of fiscal year 2001 was 36 months. The median of months between termination of parental rights and adoption increased three months (from twelve to fifteen months) between 2000 and 2001.

³ Although the number of adoptions has fallen since its last peak in the 1970s, Pertman (2000) and Melosh (2002) argue that changes in social views of adoption have made it more visible.

touched by adoption. One in three has considered adoption as a way to start or build a family.⁴ Private and international adoption agencies have long waiting lists; agencies are sometimes so overwhelmed with inquires that they suspend their acceptance of applications by families altogether. It is sadly ironic that the number of families in the U.S. who seek children through adoption is greater than the number of children in foster care who wait to be adopted. Byron and Deoudes (2002) estimate that if one in every 500 of the adults who have considered adoption were to adopt a child from foster care, then the needs of all waiting children could be met. In this paper we identify, in broad terms, the federal policy variables that are associated with success in meeting the needs of waiting children.

Both President Clinton and President Bush have taken steps to encourage increased adoptions from foster care,⁵ and in 1997 Congress passed the Adoption and Safe Families Act, the first major federal reform of adoption and foster care since 1980. Attempts to reform public policy should be informed by an understanding of the factors that influence the adoption decision and adoptive placement, but little economic research has been done on the factors that influence adoptions from foster care. In the first section below we summarize federal efforts to encourage adoptions from foster care in the states. We then present a model of demand for adoption services, and we present weighted least squares estimates explaining adoptions from foster care across the states using data for fiscal years 1996 and 1997. We find that the demand for adoption services is sensitive to subsidy support; we estimate the elasticity of demand for

⁴ According to results of a nationally representative survey conducted in 2002 by The Evan B. Donaldson Adoption Institution and The Dave Thomas Foundation for Adoption, as reported by Byron and Deoudes (2002).

⁵ President Clinton's program was "Adoption 2002." President Bush recently announced a new Internet information site at www.AdoptUSKids.org and a new set of public service announcements starring Bruce Willis.

adoption services with respect to the subsidy to be about one. We also find evidence that the price of adoption from foster care relative to the price of alternatives has an effect on adoptions. A brief conclusion summarizes the policy implications of our findings.

II. A BRIEF HISTORY OF FEDERAL INCENTIVES TO PROMOTE ADOPTION

Since 1978 Congress has tried to promote the adoption of children from foster care. However, even in years when the number of adoptions rose, the number of waiting children rose faster.⁶ As the number of waiting children in foster care climbed, Congress responded to the recurring “foster care crises” with new adoption incentive programs.⁷

The first federal adoption incentive was contained in the Child Abuse Prevention and Treatment and Adoption Reform Act of 1978 (P.L. 95-266 Section 203). The law created a discretionary grants program to fund state promotion of the adoption of children with so-called “special needs.” Though the grants program was small relative to later incentives, the introduction of the term “special needs” has had a significant impact on adoption. Special needs are characteristics of a child that can make adoption more difficult. Special needs can include physical, mental, learning and emotional disabilities (or risk of these conditions), older age, minority status, or membership in a sibling group that ought to be adopted together. Most

⁶ Preliminary data for fiscal year 2001 show that a reduction in foster care intake may have led to a fall in the number of waiting children for the first time since 1980 (Maza 2002).

⁷ In addition to the laws listed here, other legislation has affected the child welfare systems in the states, including the Strengthening Abuse and Neglect Courts Act of 2000 (P.L. 106-314) and the Welfare Reform Act of 1996 (P.L. 104-193), which placed limits on reimbursements to states for foster care and adoption expenses. Important to many adoptive families are laws concerning education of children with special needs, most recently the Individuals with Disabilities Education Act (P.L. 105-17). Recent laws directly concerning international adoption include the Child Citizenship Act of 2000 (P.L. 106-375) and Intercountry Adoption Act of 2000 (P.L. 106-279). We do not consider these indirect incentives in the current paper.

children who are adopted from foster care have one or more special needs.⁸ States designate the conditions that constitute special needs in that state. The definition of special needs is dynamic; states may change their definitions as circumstances change.

The Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272), which instituted a wide range of changes in the child welfare system, created the first federal incentive aimed at families who adopt. The Act amended Section IV-E of the Social Security Act to authorize monthly adoption assistance subsidies to families adopting children with special needs. States determine their own level of adoption assistance subsidy support and are partially reimbursed through federal appropriations.

The Economic Recovery Tax Act of 1981 created an itemized deduction of up to \$1500 for qualified expenses relating to the adoption of children with special needs (P.L. 97-34 Section 125). The Tax Reform Act of 1986 (P.L. 99-514) provided matching funds of up to \$1,000 to states that pay the up-front expenses of the adoption of a child from foster care.

The adoption tax deduction was replaced by the Adoption Tax Credit in 1996 (P.L. 104-188 Section 1807).⁹ The Adoption Tax Credit was available beginning in tax year 1997 to any family finalizing an adoption from any source, including an adoption from foster care. The credit could be taken against up to \$5,000 in qualified expenses for adoption (\$6,000 for the adoption of a child with special needs). An income exclusion of up to \$5,000 was also

⁸ At least 31,000 of the 36,000 children adopted from foster care in 1998 had special needs (US Dept. of Treasury 2000, 2). Of children adopted from foster care in 1998, 1999, and 2000, about 85 percent had special needs (USGAO 2002, 20).

⁹ Consideration of race in adoption from foster care is limited by the Multiethnic Placement Act of 1994 (P.L. 103-382), the Minimum Wage Increase Act of 1996 (P.L. 104-188 Section 1808, known variously as the Interethnic Adoption Provision and MEPAIL), except for children of Native American descent who are covered by the Indian Child Welfare Act (P.L. 95-608), discussed in section III below.

made available for adoptive parents whose employers offered reimbursement for adoption expenses. In its study of utilization of the adoption tax credit, the Department of the Treasury found that only 15 percent of families who claimed the credit had adopted a child with special needs, and the tax benefits to these families was only eight percent of total benefits claimed (US Dept. of Treasury 2000, 2). Expenses for adoption from foster care are small, usually zero, because most states use the 1986 provision of federal matching funds to pay the up-front cost of adoption for families. The result is that most families who adopt children from foster care receive no benefits from the Adoption Tax Credit.

The Adoption and Safe Families Act of 1997 (P.L. 105-89) was the most wide-ranging reform of foster care and adoption policy since 1980. The ASFA swung the focus of incentives from families to states. States could earn bonus payments for increasing the number of adoptions from foster care. Adoptions over the state's goal earned the state a bonus of up to \$4,000 each (up to \$6,000 each for children with special needs).¹⁰ Unless reauthorized when the 108th Congress convenes in January 2003, the ASFA bonus payments end with adoptions finalized in fiscal year 2002.¹¹

¹⁰ The ASFA Adoption Incentive Program payments to states totaled \$68.5 million for 1999-2002, according to USDHHS press releases. States have discretion over use incentive payments within their child welfare systems. The state goals for 1998 (the initial year of bonus payments) were set equal to the average of the adoptions finalized in 1995, 1996, and 1997. Thereafter, the goal was the largest number of adoptions achieved by the state. The amount of the incentive does not appear to have grounding in any cost-benefit study. The Congressional Reporting Service writes that the incentive payments were "a key recommendation in the [Clinton] Administration's Adoption 2002 (Spar 1997, 4)." However, no explanation of the choice of the figures \$4,000 and \$6,000 appear in the White House or Congressional documents or debate, or in the USDHHS (1997) document regarding Adoption 2002.

¹¹ There are no references to the Adoption Incentive Program in the bills pending as of December 28, 2002.

The ASFA contained other provisions; most notably the law accelerated the process for foster care case review and the termination of parental rights. These other provisions have been widely discussed in law and social work journals.¹² The ASFA also increased funding available for post-adoption services and added a new discretionary grants program that states could use for programs that support adoption-related goals.

The latest adoption incentive program began January 1, 2003. The Tax Relief Act of 2001 (P.L. 107-16, Title II, Section 202) swings the focus of federal incentives back from the states to the family. The Act institutes a \$10,000 unqualified tax credit for each family who adopts a child with special needs. The unqualified tax credit will go to families finalizing the adoption of a child with special needs after January 1, 2003. The tax credit is not reimbursement of adoption expenses. It is an outright gift worth a full year or more of tax-free income for most families.¹³ In part because so few families who adopted children from foster

¹² Specifically, the ASFA allows states to proceed on a “fast track” to termination of parental rights under circumstances of extreme abuse; however, the fast track is seldom used (GAO 2002, 24). ASFA also requires states to petition to terminate parental rights if a child has been in foster care for 15 of the most recent 22 months. There are exemptions, however, and the number of children exempted exceeded the number to whom “15 of 22” has been applied (GAO 2002, 26-28). The dearth of research on adoption policy goes beyond financial incentives. For example, the numbers 15 and 22, which are now very important numbers to social workers, were not the result of research recommendations, but the result of Congressional compromise (see testimony before House Ways and Means Human Resources Subcommittee, April 8, 1997). For critical analysis of the shortened time frames for decision-making see Adler (2001), Stein (2000), and Guggenheim (1999). For a description of how states implemented the provisions, see Christian (1999).

¹³ For example, a family with income of \$54,000 paying the average amount of tax paid by the top 25% of filers would pay no federal income taxes with the new credit. (calculated using Tax Foundation, “Summary of Federal Individual Income Tax Data,” <http://www.taxfoundation.org/prtopincometable.html> (last accessed on December 28, 2002)).

care were able to utilize earlier adoption tax benefits, it is not known how families considering adoption will respond to the incentive of the unqualified tax credit.¹⁴

To summarize, federal incentives for adoption from foster care have swung from a focus on the family, to a focus on the state, and back, without clear evidence on which is more effective. This paper begins to fill the gap in our knowledge about how families respond to incentives to promote adoption.

III. A MODEL OF THE MARKET FOR ADOPTION SERVICES

Most economic research on adoption concerns the relinquishment of infants and their subsequent adoption. Economists have primarily been interested in explaining why there are so few infants available for adoption through private agencies, lawyers, and facilitators, while there are so many prospective adoptive families who seek healthy infants. Medoff (1993) and Gennetian (1999) explore the determinants of relinquishment of infants by birth mothers, and compare the determinants of relinquishment relative to abortion. Elizabeth Landes and Richard Posner (1978) develop an analysis of the market for infant adoption, with an eye towards recommending policy that would reduce the shortage of infants. Posner (1992) expands on the argument. Posner concludes that the birth parents, the adoptive parents, and

¹⁴ P.L. 107-16 also increased to \$10,000 the qualified adoption tax credit for expenses relating to the adoption of children without special needs. The Congressional history of the unqualified tax credit reveals the lack of relevant quantitative evidence on the effectiveness of adoption incentives. The revised adoption tax credit was introduced as The Hope for Families Act (H.R. 622) contained the unqualified credit. The Ways and Means Committee removed the unqualified credit from the bill. As late as the debate on the House floor on May 17, 2001, the bill contained only the qualified credit, which would benefit primarily families who choose the expensive private or international adoption alternatives. Reps. Delahunt (D-MA), Cardin (D-MD), King (R-NY), and Pomeroy (D-ND) argued on the House floor that the preferential tax treatment of

the children would be better off if the price mechanism were allowed to function more freely. Posner posits that fewer prospective adopters would seek infants if their adoption was more expensive. He further argues that if birth mothers were fairly compensated more infants would be available; that is, Posner argues that the supply of infants available for adoption is upward sloping.

The number of children in foster care with a goal of adoption does not depend on the price of adoption services. Children in foster care are legally freed for adoption only when a court determines that their birth families cannot provide for their care. Therefore, our model focuses on demand for adoption services.

We have chosen the phrase “demand for adoption services” purposefully. Posner argues that the adoption market for infants is a market in which parental rights are exchanged. Critics such as Viviana Zelizer (1981) and Madelyn Freundlich (2000) denounce this stance as equivalent to baby-selling. Our stance is closer to that of sociologists and social workers. We do not model adoption as a market for a child, or a market where parental rights are sold. Despite well-publicized aberrations, children who are adopted through agencies (public, private, and international), lawyers, and facilitators are not simply allocated to those who are most willing to pay. Adoption is a professional service. Prospective adoptive families pay to be matched with the children who they are well-suited to parent, either by the best judgment of the family or by the best judgment of a social worker.

An essential feature of the market for adoption services is its segmentation. The market is segmented by the characteristics of the children to be adopted. We see the segmentation of

adoptions for waiting children should be re-added, but they argued without benefit of estimates of the costs or benefits of the incentive.

the market as an institutional feature that helps reduce search costs for prospective adoptive families.¹⁵ Most private and international adoption agencies, adoption lawyers, and adoption facilitators promise to match families with healthy, light-skinned, young children or infants. Most public agencies, alongside a limited number of private agencies that contract with public agencies, match families only with older children and children with special needs.

Families who consider adoption have obviously considered adding an additional child to their families. Several possibilities exist: they may conceive a child (without or with medical intervention); they may engage a surrogate; they may foster a child; or they may adopt a child through one of the several agencies that provide adoption services.

Let us limit our attention to the choice of adoption agency. For simplicity, consider two types of adoption services, adoption services from a domestic public agency and an international agency. Assume that the adoption services from the two agencies are perfect substitutes in the eyes of the family, and that there is less than perfect substitution between adopted children and all other goods.¹⁶ Then household utility is

$$u = v (h(\alpha_P q_P + \alpha_I q_I), q_2, \dots, q_N)$$

where

h is the subutility function for consumption of adoption services;

q_P is the number of children adopted through a domestic public agency;

q_I is the number of children adopted through an international public agency; and

¹⁵ Shughart and Chappell (1999) argue that orphanages served to reduce search costs for adoptive parents in an earlier time.

¹⁶ We make the simplification of perfect substitutes because it is a familiar feature of choice-between-varieties models (Deaton and Muellbauer 1980), and it allows us to emphasize the importance of relative prices on the choice of adoption agencies. The simplification is not crucial to our argument.

\hat{a}_i represents the expected characteristics of adoption services at the different agencies, including characteristics of the children they promise to place.

and q_2, \dots, q_N are other goods consumed by the family.

The solution that maximizes family utility when there are only two sources of adoption services is easy to see because, given the assumptions, families will have linear indifference curves such as AB in figure 1. The relative price of adoption through the two agencies is the slope of the budget constraint CB. Families choose to adopt through the domestic public agency if the marginal rate of substitution is higher than the price of adoption services at the domestic public agency relative to the international agency, that is, if $\hat{a}_P / \hat{a}_I > p_P / p_I$. The lower the price of adoption services at the public agency relative to the price of adoption services at the international agency, the more likely any individual family will be to choose to adopt through the domestic public agency, and the more common adoptions from foster care will be in aggregate.

By all accounts, the price of international and private adoption services is quite high. The Department of Treasury reports that the average cost of adoptions claimed by families on their 1998 tax returns was \$9,876; 52 percent of families reported expenses greater than \$10,000 (USDOT 2000, 3). In contrast, almost all of the up-front costs of adoption from foster care are paid by states with help from the federal government, and the monthly adoption assistance subsidy is available (again from the states with federal help) for children with special needs. The model predicts that states that offer greater subsidy support will have more adoptions of children from foster care, *ceteris paribus*. In the next section we measure the importance of relative prices in adoption services, and we estimate the elasticity of demand for adoption services from public agencies with respect to the subsidies.

IV. EMPIRICAL ANALYSIS OF DEMAND FOR ADOPTION SERVICES

To find the elasticity of demand for adoption services with respect to the subsidy, we estimate the straightforward model:

$$\log A_i = a + b_1 \log S_i + b_2 X_i + b_3 Y_i + e_i,$$

where A_i is adoptions from foster care in state i , S_i is the adoption assistance subsidy support, and e_i is an error term. The vector X contains information about substitutes for adoption from foster care, plus other variables that affect demand for waiting children such as income and age structure of the state population.

Recall that adoption is a professional service that matches families with children. The number of adoptions across the states is likely to vary with the ability of the states to match waiting children with families. The ability of a state to match waiting children with families will depend on child welfare resources, especially available social worker time, characteristics of the population of the states, and characteristics of the waiting children in the states. These are the variables in the vector Y .

The definitions and descriptive statistics of the variables used in the estimation appear in table 1, and the weighted least squares regression results appear in table 2.

Adoptions from Foster Care

The number of adoptions from foster care in each state during the federal fiscal year is reported to the Department of Health and Human Services, Administration for Children and Families.¹⁷ The finalization of the adoption of a waiting child is a legal procedure that takes

¹⁷ The state data come from the Adoption and Foster Care Analysis and Reporting System, which became operational in fiscal year 1995. Stolley (1993) summarizes earlier adoption

several months to more than a year to complete. After a child is placed in the home of her adoptive family, there is generally a waiting period before the family may file a petition asking the court to finalize the adoption. The length of the waiting period varies by state. The date that the adoption is finalized is also subject to influences beyond the control of either social workers or adoptive families (for instance, court delays). For these reasons we introduce a time lag into the model. We estimate the model using the number of adoptions finalized in fiscal year 1997, while the independent variables are for 1996 when the decision about adoption was made.

As might be expected, there is great variation in the number of adoptions from foster care between the states.¹⁸ The average number of adoptions from foster care in 1997 is 608; the standard deviation is 928. Part of the reason for the large standard deviation is the difference in the size of the states. In order to remove the effect of the size of the state, we use as our dependent variable adoptions per 100,000 persons in the state.¹⁹ Adoptions per 100,000 average 11.9, and have standard deviation of 14.8.

Adoption Assistance Subsidy

The first type of subsidy for adoption that we consider is the monthly adoption assistance subsidy, which was introduced into federal law in 1980 and aims to reduce the

statistics. The federal government did not collect statistics on adoption from the mid-1970s to 1994. Other organizations such as the National Committee for Adoption, the National Center for State Courts, the American Public Human Services Association, and the Child Welfare League of America tried to fill the gap in federal data. These other sources of data are not entirely consistent with the AFCARS data, and appear to contain undercounts (authors' calculations and Maza, 1999).

¹⁸ Most adoptions from foster care are made within the state of the child's residence. A cooperative agreement (known as the Interstate Compact) to facilitate interstate adoptive placements exists, but it is considered ineffective (USDHHS 2002 and USGAO 1999).

¹⁹ Ours is not the measure of the adoption rate used by social work researchers. In the social work literature, the adoption rate is defined as the percentage of the children in foster care who

marginal cost of raising an adopted child with special needs. States can, and do, supplement the federal adoption assistance subsidy.²⁰ The average of the regular adoption assistance subsidy paid by the states to a family in support of a nine-year-old adopted child was \$361 per month in 1996, with a standard deviation of \$116.²¹ After adjusting for variations in the cost of living between states, the standard deviations of the monthly subsidy rates falls to \$82.

In 1999 over 88 percent of adoption agreements for waiting children included monthly adoption assistance subsidy payments (USGAO 2002). There is indirect evidence that the adoption assistance subsidy is effective. A report commissioned by the Department of Health and Human Services on the early implementation of the adoption assistance subsidy reports that, of families who adopted from foster care in the mid-1980s, 29 percent said that they would have had difficulty adopting their child(ren) without the subsidy, and 35 percent said the availability of the subsidy had a positive influence on their decision to adopt (Sedlack and Broadhurst 1993, 6-58 and 6-59).

Sedlack and Broadhurst also find that children adopted with subsidies exited foster care to their adoptive families more quickly than children adopted without subsidy. Avery and Mont (1992, 1997) concur, finding that adoption assistance subsidies reduce waiting times for children with special needs in their study of New York State. Neither study looks for a

exit through adoption. Our definition is, however, more consistent with the model developed in the previous section.

²⁰ Other subsidies are also available in some states to cover the cost of child-rearing; for example, Illinois waives tuition at state colleges for children adopted from foster care and Florida subsidizes the cost of post-secondary education of any kind for children adopted from its foster care system. More research on the historical evolution of these subsidies is necessary. In most states, waiting children who are adopted qualify for Medicaid.

correlation between adoption assistance subsidy support and the number of adoptive placements.

We find a positive and statistically significant elasticity of demand for adoption services with respect to basic adoption assistance subsidy rates. Table 2 shows the range of performance of our model. Column (1) shows the specification in which we include on the right hand side only the relevant policy variables. Column (2) controls for all identified determinants of demand for adoption services. Our elasticity estimates range from 0.99 to 1.54. In these and all of the other specifications of the model that we tried, the coefficient representing the elasticity was statistically significant.

Suppose that the true elasticity of demand with respect to the subsidy is one. Then an increase in the average adoption assistance subsidy of \$3.60 per month per child would increase the number of adoptions by about 1.2 per 100,000 population. Nationally, this adds up to 3,000 additional adoptions (based on the national population of about 260 million in 1996) at a cost of about \$1.3 million annually. The 95 percent confidence interval of the elasticity estimate is [0.47, 2.61], so the cost of 3,000 additional adoptions may be as large as \$3 million or as small as \$500,000.

Subsidy of Up-Front Cost of Adoption

As discussed above, in addition to the monthly adoption assistance subsidy, federal law encourages states to subsidize the up-front cost of adoption from foster care, including the cost of legal fees. The subsidy of up-front cost is offered in the form of matching funds to the states,

²¹ We use the published standard monthly subsidy. The actual amount of the adoption assistance subsidies is negotiable, but the provision of the adoption assistance subsidy is an entitlement tied to the child not to the resources of the family.

up to \$1,000 per adoption. That is, to utilize the full federal subsidy, the state must reimburse families up to \$2,000. Most, but not all, states utilize the full amount of federal matching funds; the average maximum subsidy for up-front adoption expenses is \$1,587. We include a dichotomous variable that equals one if the state chooses not to utilize the full federal subsidy. States that do not reimburse the full \$2,000 of the up-front costs of adoptions have fewer adoptions from foster care, but the coefficient is not statistically significant. There is correlation, however, between offering a high monthly adoption assistance subsidy and offering the full \$2,000 of reimbursement of up-front costs, so the standard errors may be inflated.

Substitutes for Adoption of Waiting Children

The substitutes for adoption services for waiting children include infertility treatment, surrogacy, foster parenting, and private and international agency adoption services, as well as more traditional conception and child birth practices. We included in our model the fertility rate and the percent of all unrelated adoptions with private agency involvement. The signs of the coefficients on these independent variables are, as expected, negative.²²

The coefficient on the percent of intercountry adoptions is negative and statistically significant. The strong negative relationship between intercountry adoption and adoption from domestic foster care underscores the importance of considering the substitutes for adoption from foster care in the formulation of public policy. In 1996, intercountry adoptions comprised 16.6% of unrelated adoptions. In 1996 the Adoption Tax Credit lowered the price of adoption services at international agencies relative to the price of adoption services at

²² The availability of new medical technology to treat infertility may simultaneously reduce the demand for adoption and increase the measured fertility rate. One study of couples who experienced male infertility but chose donor insemination rather than adoption shows that almost half believed donor insemination would be easier than adoption (Daniels 1994).

domestic public agencies. From 1996 through 1999, the number of orphan visas issued by the U.S. State Department increased 45 percent.²³ How many more children waiting in foster care might have been adopted if the tax code had not altered relative prices?

Of particular interest as a substitute for the adoption of waiting children is foster care. A majority of waiting children are adopted by their foster parents and a significant (and increasing) number are adopted by kin who also serve as foster parents.²⁴ Many potential adoptive families clearly face a choice between parenting through adoption and parenting through long-term foster care. On average, foster care board rates are greater than adoption subsidy rates: \$371 compared to \$360. Twenty-five states set basic adoption assistance rates equal to the foster care board rate; seven states set adoption assistance subsidies above foster care board rates. We test to see if setting adoption subsidy rates above foster care board rates increases the number of adoptions. As expected, the estimated effect is positive. This finding again underscores the importance of further study of relative prices and incentives in child welfare. We would not argue that foster care board rates should be lowered, of course, since foster care board rates do not even equal the average amount spent by families in support of their children (Laws and O'Hanlon 1999, 28-29). We would argue, however, that states ought to pay close attention to the matter of the adoption assistance rate relative to the foster care board rate.

²³ National Adoption Information Clearinghouse, "Intercountry Adoptions," <http://naic.calib.gov> (last accessed December 19, 2002).

²⁴ Maza (2002) reports that from 1998-2001, about 60 percent of adoptions from foster care were completed by the child's foster parents. About 20 percent were completed by kin of the waiting child. Kinship adopting foster care is gaining in popularity. The HHS appropriations bill pending in Congress (as of December 31, 2002) authorizes subsidies for guardianship. Because many foster families may prefer guardianship (which does not require termination of parental rights), a guardianship subsidy could result in significant changes in foster care exits and kinship adoptions. Simon (1975) and Campbell and Downs (1987) address incentives to increase the numbers of foster families.

Median Income and Demographics

Other variables that may affect the demand for waiting children are the income and age of the population. We include the median household income for each state as our measure of income. The median household income in the states was \$37,995, with a standard deviation of \$5,594. The National Survey of Family Growth reveals that women with higher incomes are more likely to have adopted a child (Chandra et al. 1999, 3).²⁵ We find positive correlation between the natural log of median income and adoptions per 100,000.

We include the percentage of the population between 25 and 44 years of age as a measure of the proportion of the population that is likely to be building families. A larger proportion of the population in this age range is associated with a more adoptions from foster care.

Child Welfare Spending

Again, we view adoption as a professional service that matches families with children. Matching requires resources, especially social worker time. A public adoption agency may have insufficient resources to match waiting children with potential adoptive families in a timely manner. If limited resources results in high caseloads, social workers may find that after they provide emergency services to children, reunification services to birth families, and support services to foster families, they have little time remaining to provide adoption services. Evidence to support this hypothesis comes from recent federal funding initiatives. When states acquired additional funding for child welfare services under the 1997 Adoption and Safe

²⁵ The data in the published reports on the National Survey of Family Growth cannot be used to calculate the income elasticity of demand for adoption services. We are currently using the 1973, 1982, 1988, and 1995 waves of the NSFG to obtain a more direct estimate of the income elasticity of demand for adoption services.

Families Act, 13 of 46 states used some or all of their funds to hire or contract additional social work staff (USGAO 2002, 33).

Our measure of child welfare resources is 1996 appropriations for child welfare services in each state, as collected by the Urban Institute. The Urban Institute reports spending on adoption and spending foster care; however, by 1996 many states had begun to provide concurrent planning for children in foster care. Concurrent planning means that a social worker plans simultaneously for a child's reunification with birth parents and for a backup - frequently for adoption - should reunification efforts prove fruitless. To a great extent it is impossible to clearly divide child welfare spending into discrete adoption and foster care categories. Moreover, spending on adoption includes adoption assistance subsidies, which are already included in our estimate.

Child welfare spending per child in foster care varied greatly between the states. The average child welfare spending per child in foster care was \$13,996, and the standard deviation was \$8,799. Despite the considerable variation, child welfare spending does not appear to influence adoptions from foster care. Even if we attribute, as we may, the low level of statistical significance of the coefficient to multi-collinearity, the size of the coefficient is so small that to increase adoptions per 100,000 by one would require additional child welfare expenditures in the representative state of about \$1,100 per child in care. The average number of children in foster care in 1996 was 10,442. Therefore, the representative state would need additional appropriations of at least \$11.5 million annually, or more than a 10 percent increase over average state spending on child welfare services in 1996.

African-American and Native American Presence

Previous studies of adoption from foster care have suggested that race is a particularly important factor influencing the ability of social workers to make matches between families and waiting children. Both the race of potential adoptive families and the race of waiting children have been cited as relevant. Some researchers (most recently by Melosh (2002)) have suggested that African American families eschew formal adoption. It is said that, when circumstances require, African Americans prefer to use informal networks of extended family care. We therefore control for the size of the African American community, and we expect that the greater the percentage of African Americans in the state population, the lower the adoption rate will be. The sign of the coefficient confirms our expectations, but the estimated coefficient is small and not statistically significant.

Finally, we consider the characteristics of the foster care population. We control for the number of Native American children in foster care because placements of Native American children are regulated by the Indian Child Welfare Act. The ICWA requires that Native American children be placed for adoption within the tribe whenever possible, and therefore we expect states with large populations of Native American children in foster care to have lower adoption rates. We include a dichotomous variable indicating whether Native American children comprise 10 percent or more of the foster care population in the state. We find that the IWCA does not appear to limit the ability of states to place waiting children with adoptive families. In fact, states with more Native American children in care have more adoptions from foster care.

Finally, discrimination on the basis of race may prevent the adoption of waiting children. It is mainly Caucasian families who adopt a child whom they do not know; waiting children are mainly African American and Hispanic. If Caucasian families are unwilling to adopt children of color, it will be more difficult to match waiting children with adoptive families. Even before transracial adoption became a hotbed of conflict within the field of social work in the 1970s and 1980s, surveys suggested that race of the child was a particularly important area of concern for adoptive families. More recent surveys of adoptive families find a much smaller role for race, but some families still express strong preferences about the race, age, number of siblings and disabilities of children they are willing to adopt.²⁶

Just as families may have preferences about appropriate matches in adoption, social workers may have their own opinions about matching children and families with certain characteristics. Sherri Kossoudji (1989, 1997) and Judy Fenster (2000) raise some important questions about racial bias in child welfare practice. Using Michigan Department of Social Services data on foster care case openings and closings, Kossoudji finds that African American children who cannot be reunified with their birth families move towards permanency more slowly than Caucasian children. Fenster finds negative attitudes towards transracial adoption are more common among African American social workers than among white social workers. Despite federal efforts to remove race from the list of considerations in adoption from foster care (see footnote 9), few transracial placements are made for waiting children.²⁷ In a survey of

²⁶ See Kossoudji (1989) for a summary of early surveys on willingness to adopt across racial lines. More recent studies include Sedlack and Broadhurst (1993, 4-23) and Brooks and James (2002).

²⁷ Simon, Altstein and Melli (1994) describe the generally sparse data on transracial adoption and provide an outline of the debates over transracial adoption.

families in California who adopted in the 1980s, 64 percent said they were willing to adopt a black child, but only five percent of the willing families actually adopted transracially (Brooks and James 2002). The National Adoption Information Clearinghouse reports that an estimated 15 percent of the 36,000 adoptions of waiting children in fiscal year 1998 were transracial or transcultural adoptions.²⁸

We were therefore surprised, and encouraged, to find that states with a greater concentration of African American children in foster care have more adoptions from foster care. More research into the reasons for the unexpected positive correlation is required. Possibly states with higher concentrations of waiting children who are African American have been more successful at developing strategies for matching the children to families or for recruiting prospective adoptive families.

IV. CONCLUSION

We began this paper by arguing that child welfare policy has not been well informed by economics. While many questions about adoption policy remain to be answered, our study of adoption from foster care provides at least three important insights for economists and policymakers concerned with child welfare. First, adoption incentives to families work. Subsidies are an effective way to increase adoptions of waiting children. Second, families respond not only to the subsidy for adoption of children with special needs, but also to the price of adoption from foster care relative to substitutes such as long-term foster care and intercountry adoption. Policymakers who seek to encourage adoptions from foster care must simultaneously

²⁸ National Adoption Information Clearinghouse, "Transracial Adoptions," <http://naic.calib.gov> (last accessed December 19, 2002).

consider policy regarding the alternatives. For example, policies such as tax credits that go primarily towards families who adopt through private or intercountry agencies are likely to reduce adoptions from foster care. Finally, differences in child welfare spending do not appear to explain any of the differences in adoptions from foster care. More research on family recruitment and the matching process in adoption is needed.

Table 1

Summary Statistics

<i>Continuous Variables</i>	N	State Average	Standard Deviation
Adoptions from Foster Care in 1997 ^a	51	608	928
Adoptions per 100k Population ^b	51	11.9	14.8
Monthly Adoption Assistance Subsidy for 9-year-old ^c	50	\$360	\$103
Cost-of-Living Adjusted Adoption Assistance Subsidy ^d	50	\$360	\$82
Births per 1000 Women Age 15-44 ^b	51	63.7	6.98
Private Adoptions as % of All Unrelated Adoptions ^e	51	61.3%	20.4
Intercountry Adoptions as % of All Unrelated Adoptions ^e	51	16.6%	8.82
Median Income ^b	51	\$37,995	\$5,594
Percent of Population Age 25-44 in 1996 ^b	51	31.2%	1.96
Foster Care Board Rate for 9-year-old ^c	50	\$371	\$81
Child Welfare Spending in 1996 ^c	49	\$130 mil	\$240 mil
Child Welfare Spending per Child in Foster Care ^f	49	\$13,996	\$8,799
African Americans as Percent of Population ^h	51	11.2%	12.8
African Americans as Percent of Foster Care Population ^f	40	33.1%	23.5
<i>Dichotomous Variables</i>		Yes	No
Adoption Subsidy > Foster Care Board Rate	51	7	44
Reimbursement of adoption expense < \$2000 ⁱ	48	20	28
Native Americans >= 10 Percent of Foster Care Population ^f	51	17	34

Notes and Sources:

^a U.S. Department of Health and Human Services, Administration for Children and Families, Children's Bureau, "Adoptions of Children with Public Child Welfare Agency Involvement by State, revised May 18, 2001," <http://www.acf.dhhs.gov/programs/cb> (last accessed June 1, 2002).

^b Basic population statistics from U.S. Census Bureau, Statistical Abstract of the United States: 1997.

^c Laws and O'Hanlon (1999).

^d Cost of living index for 1995 from American Federation of Teachers, "AFT Interstate Cost of Living Index," <http://www.aft.org/research/salary/stgrave/col/97.htm> (last accessed January 20, 2003).

^e Urban Institute, "Assessing the New Federalism Databases, State Database,"

<http://www.urban.org/content/Research/Databases/Databases.htm> (last accessed January 5, 2003).

^f Foster Care population data from Child Welfare League of America, National Data Analysis System, <http://ndas.cwla.org> (last accessed January 5, 2003).

^g National Committee on Adoption (1999).

^h Demographic statistics by race from U.S. Census Bureau, Statistical Abstract of the United States: 1998.

ⁱ North American Council on Adoptable Children, "Reimbursement of Non-Recurring Adoption Expenses," <http://www.finallyfamily.com/reimbursement.htm> (last accessed June 1, 2002).

Table 2

Determinants of Adoptions from Foster Care

Dependent Variable: Log of the Number of Adoptions per 100K Population in 1997

	(1)	(2)
Log of C-O-L Adjusted Adoption Assistance Subsidy	0.99*	1.54*
	(.48)	(0.51)
Up-front Costs < \$2k	-0.02	-0.04
	(0.18)	(0.17)
Adoption Subsidy > Foster Care Rate	0.39	0.05
	(0.32)	(0.33)
Births per 1000 Women Age 15-44		-0.12
		(0.02)
Private Adoptions		-0.01
		(0.01)
Intercountry Adoptions		-0.03*
		(0.13)
Log of Median Income		1.58
		(1.45)
Percent of Pop. Age 25-44		0.03
		(0.12)
Log of Child Welfare Spending per Child	0.01	0.12
	(0.15)	(0.14)
African Americans as % of Population		-0.01
		(0.02)
African Americans as % of Foster Care Pop.		0.01
		(0.01)
Native Americans >= 10 % of Foster Care Pop.		0.34
		(0.20)
N	43	34
R-Squared	0.27	0.63
F	3.07	9.54

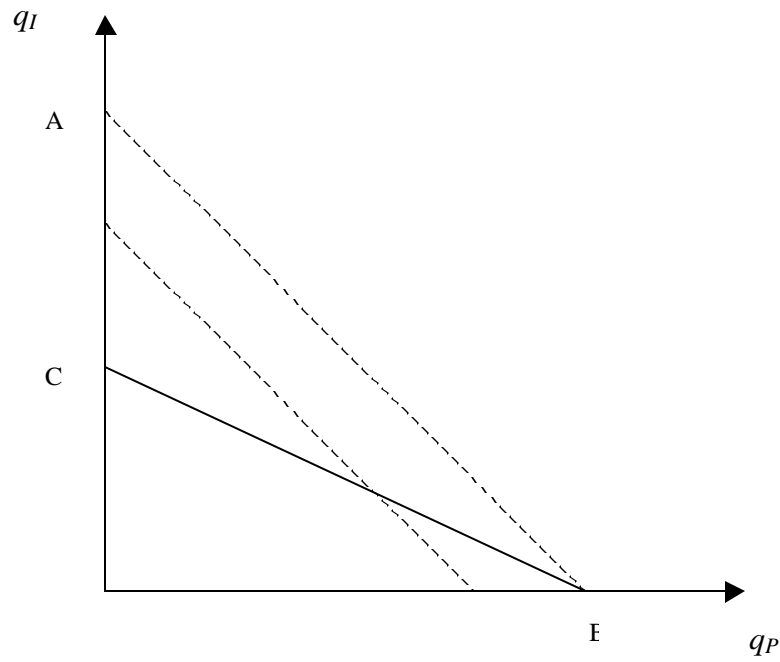
Notes: Weighted by state population; standard errors in parentheses, adjusted for heteroskedasticity. * indicates statistical significance at the 95 percent level. Incomplete data for CA, DE, IA, HA, MD, PA, TX, and VA.

Additional states omitted from specification (2) are CO, DC, KS, MT, ND, NE, OH, OR, and WY.

Sources: See table 2.

Figure 1

Choice of Adoption Services



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