

## **The Effect of Welfare Reform on Nonmarital Births: A Difference-in-Difference Approach**

Nonmarital childbearing continued to increase in the United States until 1994 and has slowly declined since then with a small uptick in the late 1990s. Among black women, nonmarital childbearing has declined continuously from its peak in 1989 with a sharper decline in rates during the mid-1990s. This paper examines the impact of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 on nonmarital births among non-Hispanic black and white women. In particular, the paper examines the effect of states' Temporary Assistance for Needy Families (TANF) benefit amounts, lifetime time limits, family cap provisions,<sup>1</sup> and the timing of TANF/waiver implementation on nonmarital births in the post-PRWORA era.

The devolution of authority from the federal government to the states under welfare reform gives states the flexibility to determine benefit levels and benefit time limits within broad guidelines defined by the federal government. Under PRWORA, states must limit TANF benefits to 60 months in one's lifetime, however, states may opt for shorter time limits. For example, in Connecticut the lifetime time limit is 21 months. Under PRWORA, TANF benefits were reduced in most states, and, as a result, there has been an erosion of TANF benefits as a component of the income support benefits available to low-income families with children. The erosion of TANF benefits and time limits have reduced public assistance income and resulted in increased labor force participation among former welfare recipients.

The debate about the causes of nonmarital childbearing continues with conservatives asserting that the generosity of welfare benefits without time limits resulting in subsidizing nonmarital births among welfare recipients (Murray 1993). Liberals argue that welfare has not created incentives for nonmarital childbearing, but, rather, the lack of economic opportunities has increased nonmarital fertility rates. A review of the empirical literature of a positive link between welfare and nonmarital fertility from the mid-1990s finds that the evidence is mixed (Moffitt 1995). A paper by Horvath-Rose and Peters (2001) examining pre-PRWORA state waivers finds that the family cap policy lowers nonmarital births for teens and post-teens and for blacks, whites, and all races while other waiver provisions (e.g., time limits) have little or no effect. This paper contributes to the prior literature by examining nonmarital birth rates in the post-welfare reform period, and the elapsed time since PRWORA was enacted allows for an examination of the effects of state's welfare time limit policies.

In this paper, we expect to find a reduction in nonmarital births as a result of welfare reform policies for several reasons. First, the reduction in benefits reduces the ability of welfare recipients to support children. Second, welfare reform reduced the financial incentive to have additional children through the family cap provisions. Third, there is evidence that, while fertility reduces labor force participation in the short-term, labor force participation reduces fertility rates in the long-term (Rosenfeld 1996). Thus, because PRWORA increased labor force participation among current and past welfare recipients, it should indirectly lead to a reduction in

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<sup>1</sup> Family cap provisions limit the increase in benefits a recipient unit can receive after the birth of another child. Family caps were not a standard provision in Aid to Families with Dependent Children (AFDC) programs. Only under waiver authority were states able to implement a family cap.

fertility among this group. This paper further examines whether reductions in nonmarital births vary by racial and ethnic group, given differential TANF receipt by racial and ethnic groups.

The paper first descriptively explores TANF participation pre- and post-welfare reform for different ethnic and racial groups. We examine nonmarital fertility rates by state and the United States as a whole for non-Hispanic black and non-Hispanic white women. We also examine nonmarital fertility rates for groups of “liberal welfare policy” and “conservative welfare policy” states.

Second, this paper examines changes in fertility induced by PRWORA by exploiting state differences in TANF benefit generosity, family cap provisions, lifetime time limits, and the timing of TANF/waiver implementation. The paper uses a state-level difference-in-difference approach to measure differences in state’s fertility rates during the pre- and post-welfare reform period. In particular, the dependent variable is state nonmarital fertility rates by race/ethnicity and age. State-level independent variables of interest include: welfare reform/waiver implementation, family cap provisions, maximum TANF benefits for a family of two, three, and four, and welfare time limits.

The regression model controls for changes in the generosity of other income support programs (e.g., Supplemental Security Income, EITC, Food Stamp Program) and various state-level macroeconomic factors (e.g., unemployment rates, labor force participation rates, and employment growth rate) during the 1990s. Also included are other control variables to account for other factors that might cause state fertility rates to differ (e.g. state abortion policy).

The source of data for nonmarital fertility rates by race and age is the National Center for Health Statistics. State-level TANF data are obtained from the Welfare Rules Database maintained by The Urban Institute—the most timely and comprehensive source of this information. State-level macroeconomic measures are taken from published data from the Bureau of Labor Statistics.

In general, endogeneity is a major issue in examining determinants of fertility. For example, Ribar (1994) finds that adolescent childbearing is an endogenous determinant of high school completion. Other possible examples of the endogeneity of fertility may include number of children, age of youngest child, and income. The difference-in-difference approach and state-level variables avoids the inherent endogeneity problems that arise in examining determinants of fertility.

In addition, while many factors affect fertility (e.g., religion, desired fertility), these factors can be excluded from modeling the effect of welfare reform on fertility rates because *a priori* there is no reason to believe these variables change in any systematic way that is correlated with changes in the welfare policies of states during the 1990s.

References

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