

**Teenage Out-of-Wedlock Childbearing and Time Limits:
A Look at the Welfare Reform of 1996**

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THE ISSUE STATEMENT

To study the incentives created by welfare on out-of-wedlock teenage childbearing. Specifically, the 1996 welfare reform known as the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) has tried to reduce welfare caseloads by limiting assistance to 5 years. As a result, the benefits from Aid to Families with Dependent Children (AFDC) as a means of long-term income have been eliminated and hopefully, potential recipients will be discouraged from enrolling in welfare. The goal of this study is to see whether the time limits have had a significant impact on changing the birthrates of teenagers at risk of having a child out-of-wedlock.

SIGNIFICANCE

Over 500,000 children are being born out-of-wedlock to teenagers each year and that number grows by 50,000 every four years (Haveman, Robert, Wolfe, Wilson, and Elaine Peterson, 1997).

There are four main reasons why this is a problem:

1. She will find it harder to get out of poverty.

Out-of-wedlock childbearing produces bad futures for the teenager. She is already living in a disadvantaged environment, coming from a low income family and having little education and having a child places more burdens on the mother. As a result, she has less time to allocate to education, work, and her child. Subsequently, women who have out-of-wedlock teenage births are characterized by lower education levels and lower lifetime earnings compared to their peers (Roosa, Fitzgerald and Carlson, 1982). In the end, they cannot break out of poverty.

2. Her baby will also be stuck in poverty and suffer other problems.

Their babies are more likely to be born prematurely and have lower birth weight. They will suffer from other health problems, have lower levels of education, experience abuse, and increase their chances of ending up in foster care. Also, they are raised in the same environment as their mother, and without appropriate role models, the children will fall into the same pattern as their mother. That is, the daughters have a tendency to have children as teenagers as well and the sons have a tendency to crime (Lord, 2002). As a result, the cycle of poverty continues with little chance of upward mobility.

3. She will become dependent on welfare.

In order to break this cycle of poverty, it is important to target teenagers. One may argue that the target should be focused on older women because they are the majority of welfare caseloads. However, studies have shown that the teenagers do not go on welfare immediately. After all, they wouldn't decide to have the child if they thought they wouldn't be able to raise the child (Lundberg and Plotnick, 1995). Unfortunately, with examples in their neighborhoods of other women and teenagers who have a child outside of marriage, they believe that changing the timing of their first birth will not affect them; they begin to accept that they will never break out of poverty. In addition, some of these teenagers even continue to have more children out-of-wedlock, thinking that there were little costs to having the first child. However, they soon realize that it is difficult to sustain this lifestyle and end up on welfare. So, women who have their first child as a teenager are the ones who are most likely to need welfare in the future.

4. It's expensive and not popular.

Teenage out-of-wedlock childbearing costs the public more than \$7 billion each year. As mentioned above, these teenagers become the largest group of recipients for welfare and their

children will incur costs such as foster care. And, since this problem continues into future generations, these costs to society will not disappear. Furthermore, it is not a popular idea that people should pay taxes to support a person who does not work and instead of trying to improve, she might make herself worse off by having another child.

5. Can policy and which policies reduce birthrates?

Many policies were instituted in the 1990's and so it is difficult to assess which may be the most successful. PRWORA included provisions that made recipients work or stay in school. And if she is a minor, she would have to stay with a parent or legal guardian. Also sexual education or life-choices education have become a popular alternative and account for quite a few studies. The other most popular study is the effects of time limits.

PAST RESEARCH

A. Determinants of Teenage Out-of-Wedlock Childbearing and Welfare Use

There are many arguments as to why teenagers make certain fertility decisions. However, they are not necessarily contradictory. The literature has identified four main determinants associated with teenage out-of-wedlock childbearing and they are all related to some form of social disadvantage. The first main issue is belonging to a minority group. Studies are mixed as to the significance of race, but a majority of the studies have shown that being black or Hispanic is associated with higher rates of teenage childbearing.

The second factor is information because it allows teenagers to assess the risks of an early pregnancy (Oettinger, 1999). As mentioned above, the teenager does not live in a setting that would give her likely role models. In most cases, her mother was a teenage mother and other people she knows have had a child as a teenager and they have been able to continue living. As a result, she may believe that she can live on welfare. Furthermore, information may

not be correct since there are those who did not know that time limits would not exist in their state (Moffitt and Pavetti, 1998).

Thirdly, job and marriage markets affect decisions because these are the substitute sources of income. If the unemployment rate is high, then it is less likely for her to find a job, especially since she is young, has low education, and is plagued with other social problems. In addition, the ability to marry may affect decisions. Some have argued that women choose to go on welfare instead of settling for a less than ideal husband (Lichter, McLaughlin, and Ribar, 1997). Others have argued that these teen mothers have traits that make them less desirable to men. However, the marriage markets have not been found to be significantly associated with welfare use or have been associated with small reductions in female-headed households.

Fourth, public policy plays an important role in teenage births. The substantial benefits provided by welfare provide no disincentive for teenagers to end a pregnancy before the child is born. However, one must be cautious not to think that a teenager would make the decision to have a baby in order to receive welfare. Rather, once a teenager is pregnant, the teenager is not motivated to avoid the birth.

The main welfare policy that has provided this incentive was Aid to Families with Dependent Children (AFDC). AFDC provided financial benefits to unmarried females with children under the age of 18 and below some income level. This policy had the effect of reducing the value of income from work because with other included benefits like Medicaid and food stamps, the mother would be able to allocate more of her time to the home (Lord, 2002).

With the welfare reform of 1996, however, AFDC was replaced with TANF and the most significant characteristic was the time limit. In effect, it made public assistance temporary. As a result, women would realize that welfare would no longer be something to live off of. Rather,

welfare might even be saved for years when they actually needed the assistance. TANF also added provisions directed specifically at potential teenage mothers. It required mothers to stay at home with a parent or guardian and go to school or work. These may have been disincentives if the girl had planned on gaining independence from her family or drop out of school.

B. Other Studies

The literature on out-of-wedlock teenage childbearing has been broken into many different theories. None are necessarily contradictory to each other, but there are many ways to frame the problem. One theory focuses on the role of information. These studies (see Hanson et al., 1987) look at how sexual education has played a role in informing teenagers as well as how responsibility plays a role in using contraception. Another field has looked at opportunity costs. For example, it isn't that costly to have a child if she will receive more benefits (An, Chong-Bum et al, 1993). Others have framed the problem in terms of utility maximizing, choosing welfare and children than work (Rozensweig, 1999). Another group looks at the intergenerational effects of having a mother who grew up as a teenage mother (Roosa et al., 1982). And a final popular theory is that marriage markets are not ideal for a woman to choose a spouse (Lichter et al., 1997).

In the pre-welfare reform era, researchers could not test the effects a time limit on welfare would have on teenage fertility decisions. However, they focused on whether reduced benefits would result in lower participation or not. There are some studies that just use a simple regression (Akerlof et al., 1996). Others have used maximum likelihood estimators (Plotnick, 1990). And a third group has used differencing equations (Kaestner et al., 2001).

The 1996 welfare reform gave many researchers an event that could be used as a natural experiment. However, the research utilizing difference-in-differences estimators are still sparse.

This is because there are doubts whether difference-in-differences can control for policy endogeneity (Grogger, 2000). The problem arises when one considers that it is possible that there may be characteristics of the population within the state which may affect the timing of the welfare implementation. Grogger solves the problem by assuming that the disturbance term containing state and time specific components can be controlled by creating year and state dummies. Kaestner argues that the endogeneity problem can be disregarded because this was a federal policy which was implemented throughout all states with only a variation of 3 years (2001).

There is still debate as to the effects of time limits. Many find no relationship at all. Others have found the relationship to only hold among blacks. And others have found a relationship depending what model they use. Finally, some even find that there is a positive relationship between time limits and childbearing.

It is suggested that the variables controlled for and the datasets used contribute to the different findings. There were many policies that took place in the 1990's and it is difficult to separate the effects of each policy. In addition, it is extremely difficult to find data on each different policy in every state. As a result, I will put all the state-wide policy changes as a dummy variable and separate the time limit into another dummy variable.

There are three different datasets that are used in these studies: the NLSY, CPS and PSID (Panel Study of Income Dynamics). I will use the Study of Program Dynamics dataset because it was designed specifically for the welfare reform of 1996. Furthermore, no one has used this dataset yet, so it will be interesting if I can replicate Kaestner et al.'s study (2001) where he uses the NLSY. He uses a Difference-in-Difference estimator using the nlsy97 and nlsy79. Then he splits the groups into high-risk teens (those who are poor and have mothers who

were single mothers) and low-risk teens (those who are from more affluent families).

Furthermore he contrasts the older teens to the younger teens positing that the older teens would have different reasons for having a child since they are more independent and will probably want the welfare benefits while the younger teens may have more social problems affecting her decisions since she doesn't have an appropriate role model.

DATA

A. Demographics

The Survey of Program Dynamics (SPD) is the main source of data for this paper. It is a dataset which was created as part of PRWORA, ordering the Census Bureau to develop a survey which could evaluate the impacts of the welfare reform. Since the welfare reform was in 1996, The SPD borrowed samples from the 1992 and 1993 panels Survey of Income and Program Participation (SIPP) to create datasets pre-welfare reform and the March 1997 supplement of the Current Population Survey (CPS) following approximately 37,000 households. Due to budget cuts, however, the 1998 sample was reduced to about 19,000. The survey is a nationally representative sample of the U.S. population currently from 1992 to 1999 but will eventually have ten years of panel data. I will use it to collect demographic data such as the race, age, and geography of the teenage mothers. In addition, I will create the control group from this dataset by using women who are at low risk of going on welfare.

I am using the control group used in the Kaestner (2001) study. By separating the teenagers by their background, Kaestner made a treatment group where girls with low education, low mother's education, and a single parent are more at risk of being affected by welfare reform. The control group will be teenagers with higher education, higher mother's education, and a two parent household.

Ideally, I would have liked to compare a treatment group with a control group that would be more likely to be on welfare, making the two samples more similar. However, it would be difficult to distinguish whether a girl left because of the time limit or other welfare reforms.

Another way to create a control group is suggested by Grogger (2001) where he uses women of different age groups, noting that women with older children will leave welfare for other reasons other than time limits. That is, women with children at the age of 18 will not be eligible for welfare anymore, so Grogger considers women with children over the age of 13 to be unaffected by the time limits. However, his method would suffer if women have different age-related reasons for leaving. Furthermore, Moffitt and Pavetti (1999) note that women may put some of their welfare time on hold, saving their five years for times that they really need it.

B. Time Limits and Other Controls

Data on time limit implementation is from Shoeni and Blank (2000) and Kearney (2002). A report to Department of Health and Human Services will give me the maximum amount of benefits for a household of 3 (Bloom et al.). The unemployment rate was taken from the National Priority Program Dataset.

METHODOLOGY

The point of this study is to see whether reduced welfare, in particular time limits, had an effect of reducing teenage out-of-wedlock childbearing. Because of the recent legislation implementing time limits, I can use a difference-in-differences estimator.

$$Y_{ist} = \alpha + (\text{Background and Personal Vars})_{ist} + (\text{Time Limit})_{st} + (\text{Other Reform})_{st} + (\text{Unemployment})_{st} + (\text{Max Level of Benefits})_{st} + u_{st} + e_{ist}$$
$$i = 1, \dots, n_{st}; s = 1, \dots, S; t = 1, \dots, N$$

$Y = \ln(\text{number of births})$

Background and Personal Vars = age, race, education, mother's education, and single-parent household.

Time Limit = modified dummy. Equal to 0 before, equal to fraction for year it was implemented, and equal to 1 after.

Other Reform = modified dummy similar to time limit. This will be a variable to capture any statewide welfare changes other than time limits.

Max Level of Benefits = real value of AFDC/TANF

u = unobserved effects

i = individual, s = state, and t = time.

I put all the state-wide reforms into the one dummy "Other Reform" because as Grogger (2000) noted, there has not been sufficient data to separate each and every reform. However, since the focus is on time limits, Grogger takes a less ambitious approach and controls for all state-wide reforms with one variable.

I expect the "Time Limit" variable to have a negative relationship with births to out-of-wedlock teens. This is because they realize that welfare is no longer a permanent source of income.

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