Declining Fertility and Housing Costs

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Abstract

I study how the cost of family space shapes fertility decisions, and what role housing policy can play. Housing costs are at the center of the debate on declining fertility: children need space, and the young households who are deciding whether to have kids have few resources to pay for it. I build a life-cycle model in which households face income risk and choose fertility, savings, and whether to rent or own, subject to a down payment constraint. In the model, a child increases the demand for physical space, and young households face a tradeoff between having children sooner, when fecundity is high but earnings are low and uncertain, and later, after building up savings. I calibrate the model to the United States in 2007 and estimate an exogenous decrease in the desire for children to match the recent fertility decline. Along the transition to a new steady state with a smaller population, the presence of fewer households makes housing cheaper, which feeds back into higher fertility. I use the estimated model to assess different housing policies. Relaxing credit requirements has small effects on fertility in the medium run, as it mostly shifts the timing of fertility. Instead, the effect of policies that change long-term incentives, such as more housing supply and credit available only to parents, is stronger, and builds up over time. The results shed light on the importance of focusing on the long-run effects of policies aimed at increasing fertility.

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