

# From Housing Bust to Baby Bust?

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Kids are expensive. Economists typically assume that children are a “normal” good — one for which an increase in income leads to an increase in demand. (Yes, economic theory treats even children as “goods.”) Thus, it seems logical that people with more wealth would tend to have more kids. But, in fact, many studies have found a strong negative correlation between income and fertility, at both the country and the family level.

The relationship between income and fertility is far from straightforward. For example, as women’s wages have increased, so has the opportunity cost of their time, making children more expensive. This could lead families to shift their spending to goods other than children (a so-called “negative substitution effect”) to an extent that outweighs the positive income effect of higher wages. People with high incomes also tend to live in places with a high cost of living, which could limit their disposable income or make child care and schooling very expensive. It’s also possible that people not planning to have children are more willing to move to places with a high cost of living (where they might earn commensurately higher incomes) because they expect to have relatively low expenses compared to couples planning for children.

Michael Lovenheim of Cornell University and Kevin Mumford of Purdue University explore the relationship between family housing wealth and fertility in their forthcoming article “Do Family Wealth Shocks Affect Fertility Choices? Evidence from the Housing Market.” Unlike income shocks such as a raise or job loss, changes in house prices do not affect the opportunity cost of a parent’s time or change the allocation of household work between parents. Any relationship between housing wealth and fertility is thus more likely to be causal, not just a correlation, according to the authors.

The authors’ data come from the University of Michigan’s Panel Study of Income Dynamics (PSID), a household survey that began in 1968. Lovenheim and Mumford look specifically at women aged 25-44 during the years 1985 through 2007; about 54 percent of women in the PSID own their own homes. The trend in housing price changes during this period is overwhelmingly positive. To isolate the effect of housing wealth on fertility, the authors control for factors including age, education, marital status, family income, the number of other children, city, the state unemployment rate, and real income per capita.

“Do Family Wealth Shocks Affect Fertility Choices? Evidence from the Housing Market.” Michael F. Lovenheim and Kevin J. Mumford. *Review of Economics and Statistics*, May 2013, vol. 95, no. 2 (forthcoming).

Lovenheim and Mumford find that a \$100,000 increase in the value of a woman’s home over the prior two years raises her likelihood of having a child by 17.8 percent. An increase of \$100,000 over four years raises the likelihood by 16.4 percent. While these might seem like small marginal changes, the authors note that in the context of the early-2000s housing boom and the low baseline level of fertility, the increase in fertility is economically significant. They calculate that the run-up in house prices between 1999 and 2005 increased overall fertility by between 8.6 and 12.8 percent.

The change in fertility might actually reflect other economic conditions that are correlated with house price changes. The authors thus estimate their model for renters, who experience the same economic variation as homeowners without housing wealth changes. The effect on renters is small, which suggests that the link between house price changes and homeowners’ fertility is indeed real.

What if people planning to have children intentionally move to areas with amenities such as parks or good schools that make home values more likely to rise? To check if this phenomenon is skewing their results, the authors reestimate their equation using a method

that restricts the price growth rate to be the same in all areas each year. They find that selective migration is not causing bias in their estimates.

Historically, housing wealth has not been especially liquid, which might lessen its impact on behavior. But Lovenheim and Mumford speculate that the increased availability of home equity loans and lines of credit in the 1990s and 2000s increased household responsiveness to price changes. As expected, the authors find that the fertility response more than tripled over the sample period.

If households responded to the housing boom by having more children, did the housing bust afterward lead them to have fewer? The authors’ data end in 2007, but the few price declines in their sample suggest that people are less responsive to falling prices. As they note, however, the declines in their sample were not accompanied by the large reductions in the liquidity of housing wealth that characterized the recent bust, so it’s likely that the effect would have been larger after 2007. A recent study by the Pew Research Center found that the U.S. birthrate fell 8 percent between 2007 and 2010, but sorting out the causes of that decline will be a matter for future research. **EF**