

EconoFact Chats: Demographic Headwinds: Fewer Babies, Longer Lives, and What it means for the Economy

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Published on June 7th, 2026

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I'm Michael Klein, executive editor of EconoFact, a nonpartisan web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein

There are more old people and fewer babies. We have a good idea why there are more old people. Medical advances and healthier lifestyles are resulting in longer lives. Falling birth rates are more of a puzzle. These two phenomena together are resulting in significant demographic shifts – a change in the age profile of the population that has important economic and social implications. My guest today, Melissa Kearney, has written about both falling birth rates and the effects of an aging population. Melissa, an economics professor at the University of Notre Dame, is also the director of the Aspen Economic Strategy Group which recently published the report, *Demographic Headwinds: The Economic Consequences of Lower Birth Rates and Longer Lives*. Among other professional affiliations, Melissa is on the boards of the Notre Dame Wilson Sheehan Lab for Economic Opportunities, and the MDRC. She served as director of the Hamilton Project at Brookings from 2013 to 2015, and as co-chair of the J-PAL State and Local Innovation Initiative from 2015 to 2018. Melissa, welcome back to EconoFact Chats. It's nice to have you on once again.

Melissa Kearney

It's always good to chat with you, Michael. Thanks for having me.

Michael Klein

Melissa, what is happening to the age profile of the United States' population?

Melissa Kearney

It's really a combination of the very large baby boom cohort, the cohort that was born in the 1940s, 1950s. That very large group of people has now reached retirement age and older. And advances in healthcare and lifestyles have led to an increase in life expectancy. And so the result is that a larger share of the US population is over the age of 65. It's gone from close to one in ten, 20 years ago to closer to one in five. So that's a really large share of the overall population that's now above age 65. That means the median age of our population has increased from 30 to 39. And at the same time, as you alluded to, we've had a steady decline in birth rates since 2007. And so there's just fewer babies and so the population is becoming increasingly, it looks more like an inverted population pyramid with more and more old people and fewer and fewer young people.

Michael Klein

This isn't just the case for the United States, right?

Melissa Kearney

No, absolutely. This is happening across high-income countries. The sustained reduction in fertility and the increase in the share of the population over age 65, that came to East Asia and

Europe before really the U.S. has been seeing this. And so if we look across the OECD countries, the share of the population over age 65 is already 30% and it's projected to reach a half, which by the way, it's already a half in Japan. And fertility is quite low in those countries as well. Across the OECD, again, fertility is down to 1.5 births per woman...these all pose very meaningful, consequential effects for our society and the economy.

Michael Klein

What are some of those effects?

Melissa Kearney

Well, let me just say you know, at the outset, it's good that people are living longer, right? It's great that we have more and more people living longer after age 65.

Michael Klein

As someone over the age of 65, I would tend to agree with that. Thank you.

Melissa Kearney

And still very much active and professionally engaged. These are all good things. The reason why it poses challenges though is because a lot of our fiscal systems, our social insurance systems...in the US, think Social Security and Medicare, those all depend on having a large share of the population working age contributing into these fiscal funds, and then pay out benefits and healthcare benefits to older people. So as you have a larger old age dependency ratio—more and more old people relative to the working age population, that increases the fiscal pressures on these systems. Okay. In some sense, that's the most obvious and from a policy's perspective, the easiest issue to address. It's very hard politically, obviously, but those fiscal pressures are very obvious in Europe and they're increasingly obvious in the U.S. as well.

Michael Klein

And it has other implications too, for example, the care for the elderly, right? Not only the fiscal care, but, you know, just healthcare.

Melissa Kearney

Yeah. And who's going to take care of people in their old age? And, and we see this in Japan, too, like with terrible stories and shocking statistics about people dying alone in their apartments. But when you have fewer young people, and, and in the U.S. now, fewer immigrants available to provide elder care, that poses challenges. I want to be clear, though, this isn't just a fiscal or policy challenge. There's a lot of really good work in macroeconomics, and you know that I'm not a macroeconomist, but there's work that macroeconomists have done showing that an aging population...an aging workforce, really threatens business dynamism. And people have linked the aging of the U.S. workforce, the aging of U.S. firms, to lower business dynamism, meaning fewer startups. And ultimately, that means a slowdown in productivity growth. That actually threatens living standards for all people; if our economy simply becomes one that's less dynamic and less productive.

Michael Klein

That's at the aggregate level, but at the local level, you also have these towns where young people have left and the older people...you've reduced the tax base, and then these towns and localities are really struggling too, right?

Melissa Kearney

I think this is really, really important and something that it seems that state and local policymakers sort of have their head in the sand about. So, remember, we're talking about two different demographic things that are happening at the same time in the US – there's more old people and they're living longer, and there's fewer babies that have been born since 2007. And there's no suggestion that that decline in fertility is going to turn around. So, what that means is you've had fewer children enrolling in public school systems, and certain parts of the country have experienced this more so than others. Now we're about 18 years into this fertility decline and we see fewer young people enrolling in colleges and universities. So K through 12 schools have started to have to close in certain areas. Smaller colleges are going to have to close. And eventually, these are going to be missing workers – people that aren't entering the workforce, the tax base. And that's going to put a lot of pressure on public goods at the state and local level. How do you maintain a hospital system, a public transportation system, when there are simply fewer contributing workers paying taxes in a local or state area?

Michael Klein

Yeah, I recently found out that my high school, which is in Maine, the graduating class is now 50% smaller than it was when I graduated back in the mid-1970s. So that's a really dramatic example of that. So you had mentioned the fact that there are fewer immigrants. That could have helped the United States with some of these demographic issues, right?

Melissa Kearney

Yeah, an immediate way to solve a shrinking workforce is to just bring in working aged people prepared to work, right? And we could do more employment directed immigration in this country. Again, from a policy matter, it's easy to say, 'okay, we need to allow more working immigrants into this country.' Politically, that becomes very hard. You mentioned the fact that this is something other countries have been experiencing. There's some nice work showing that in Europe, they basically have a choice. They could either allow more immigrants into the country to keep up their productivity and their taxes, or they need to increase taxes on natives by a meaningful amount in a sustained way. And so that's an immediate policy response. But I want to be clear, a lot of the countries that send immigrants to our country are also experiencing a decline in fertility. So this is a partial, short term solution. Let me give one specific example that surprises a lot of people. Fertility in Mexico is now lower than it is in the US. And so even these sending countries are experiencing fertility decline.

Michael Klein

That is surprising. And I mentioned in the introduction that it's relatively clear why people are living longer, but it's not at all clear why birth rates are declining. You've written a recent research article about this, and to set the stage, I'd like to ask you about what you explain in that article as an important way to think about the issue by looking at cohorts, rather than at what happens within a certain year. So, to make it understandable for our listeners who might not be used to thinking about things this way, why is that distinction between looking at a year and looking at a cohort important?

Melissa Kearney

There are really two reasons why moving from...looking year by year to cohorts is useful. So let me start by sort of giving some background on this. In a *Journal of Economic Perspectives* paper that Phil Levine and Luke Pardue and I wrote a few years ago, we looked at birth rates

year by year. We documented how birth rates in the U.S. have been falling since 2007, basically across the board, racial and ethnic groups, different age groups – everyone under 30, different education levels. And we tried to explain it with standard things that change over time and really came up short. Like after 2007, the economy improved. There were no big policy economic changes. We couldn't empirically explain the decline. And so conceptually moving to a cohort-based framework is really illuminating because then you're not saying what happened after 2007 that all of a sudden led fewer women in the U.S. to have births, but it's what is it about young adults who are entering their childbearing years in this period? These were adults who were born in the late 80s, early 90s. What is it that's leading them to make different life choices than the cohorts right before them, the women born earlier in the 80s or in the late 70s or mid 70s? So conceptually, it's very helpful. It's also helpful in a measurement sense, in the sense of, one of the things a lot of people have said about the decline in fertility since 2007 is, oh it's just people delaying. People are just waiting until older ages. Now that we're sort of more than 15 years in, that gets harder to say, but there's still a lot of sanguine demographers who think this is just about delay. When you look at what's happening across cohorts and you look at the life cycle, like the age profile, we can see that these younger adults, women who are still in their 20s and 30s, for all ages, they're having fewer kids. They're more likely to be childless than the cohorts just before them were at the same age. And so that helps dispel this idea that it's simply about delay that's likely to catch up.

Michael Klein

Thanks, that was very illuminating, that was very clear, Melissa. There is an older economic literature that looks at the economic motivations for the decisions on whether or not to have children, and if you have children, how many. What are the basic ideas behind this analysis that's attributed to Gary Becker, who was a professor at the University of Chicago?

Melissa Kearney

This standard economist framework for looking at the decision to have children thinks about having children the way we as economists think about all these choices you'll make. If the relative price of having kids is lower, all else equal, you'll choose to have more kids than otherwise, because kids take resources, they take your time, and they take your money...and the less time and money they take and the more they leave for other things, the more you'll choose a higher number of children. And income matters. So the more income you have, then when we relax your income constraints, then you'll spend some of that money on children. So in this framework, children are considered normal goods, to use our "econ" speak, and there are anticipated price and income effects. And there's a lot of empirical support for this very neoclassical economics way of thinking about the "demand for children". At a micro level, when we see households get some exogenous shock in income, when they're homeowners, and house prices go up so they have more home equity, we see people choose to have more children. And when child tax credits go up, when the cost of childcare goes down, when these things that on the margin affect the price of having children, on the margin, there are effects in the direction we would expect.

Michael Klein

So, I remember when I first learned about this when I was in college, I thought this was taking economic analysis too far and is even maybe immoral. The decision about your family size seemed beyond the realm of economics. But I have to say that years later when my wife and I did consider how many children to have, the economic costs, including the opportunity costs

for my wife's career, figured into our decision. But Melissa, does this type of analysis explain the decline in the birth rates that you've described?

Melissa Kearney

No. And I have to say this with great humility as an economist. I love this economic framework. I think it's fundamentally correct. But, and this gets to your instinct when you first saw this, you're like, wait, this isn't how people make decisions. I think on the margin, and within a cultural context, this helps us understand why someone might choose to have three kids instead of two, or two people who are living in the same social milieu with the same social norms, if one gets more income than another, they might feel like they can afford to have another child. But it seems like this is really – and I say this as an empirical matter – this basic framework cannot explain what's happened in high-income countries in the past 20 years. People, their incomes are going up. Prices of having kids are not meaningfully going up. And yet we're seeing a collapse in fertility rates. And so, this is really what Phillip Levine and I highlight in this recent *Journal of Economic Literature* paper that you've mentioned. When we look across cohorts, we need a different set of explanations to understand why young adults today are choosing, or are less likely to choose, parenthood and family formation than recent cohorts in the past.

Michael Klein

So you're pointing to shifts in cultural and societal factors that affect fertility rates, right? What are some of these?

Melissa Kearney

So this is, again, this is really hard for us, especially as empirical economists, because it's much harder to document the effects of broad-based shifts in culture and social elements, but you're exactly right. That's what we're pointing to. We call it this framework of shifting priorities because it's not quite prices or preferences. It's the way people are making decisions within a social context. So, if you just think about...let's think about some of the social things that have changed. There are many more lifestyles available to people now, both affordable and socially acceptable. It's more acceptable to choose to not have children in your 30s, and to pursue your career or leisure or travel, all of those kinds of things. We think that probably is changing decisions. If you think about the way people interact now, or not and the advent of digital media, people being more online, the role of cell phones, all of those things contribute to the way people are interacting and making their decisions. Media influences, changing ideas about gender roles, declining religious observance; all of these things we think are really likely what's driving this shift in priorities, and all of it requires more focused research.

Michael Klein

But as you say, it's very hard as an empirical matter to take out what is going on. One question that arises is, you said that this is happening not just in the United States, but in other countries as well. I guess you would say that these shifting priorities are present in those countries too, right?

Melissa Kearney

One of the things that seems appealing about this framework we've put forward is it can help explain why this seems to be such a universal trend. Young people in their 20s and 30s in other high-income countries seem to be making similar decisions to young people in the U.S. So, it's not about specific policies. We know that in Scandinavia, for instance, there are much more supportive structures for families. There's more egalitarian roles for men and women in

the household. And yet still their fertility has collapsed. And so, this kind of shifting priorities driven more by social and cultural factors would help explain why we're seeing this so universally.

Michael Klein

So, some politicians have talked about pro-natal policies – things like advanced child tax credits and stuff like that. You're suggesting that those kinds of things would only operate at the margin and really wouldn't have much of an effect on fertility rates. Is that correct?

Melissa Kearney

That's correct. These things probably will have an effect on the margin. We have very good micro-empirical evidence that that's true. It is not going to lead to an increase in the number of children in the aggregate from a total fertility rate of 1.6 back up to 2.1. The estimated magnitudes are not large enough for these incremental policies to have such large effects. But I want to hasten to add, that doesn't mean we shouldn't do this, right? There are a lot of reasons why we want to have expanded access to paid leave, or expanded access to high quality childcare, expanded child tax credits, things we think will make people's families' lives better...things we think might especially help lower income families afford the costs associated with having young children. There's lots of reasons why I'm in favor of these kinds of policies. I just think policymakers need to be clear-eyed that they almost surely won't lead to a meaningful, sustained increase in a country's fertility.

Michael Klein

Nor will hectoring from politicians, I imagine.

Melissa Kearney

Hectoring doesn't seem to work, but I will say messaging matters. So, this, we do have social science evidence – that the messages people receive from celebrities, from television content, those things affect people's choices, even when it comes to very private, personal things like marriage, divorce, and having kids. So, not hectoring for sure, but if media were more pro-family, if celebrities, you know, when people's favorite celebrities favor marriage and having kids or show that it's fun and not burdensome – my read of the evidence is those kinds of things actually might matter a lot more than, let's say, incremental tax policy changes.

Michael Klein

I guess, though, these kinds of pro-natal policies from economists talking to people, that's not going to be that influential, right? It's got to be movie stars or sports people or something.

Melissa Kearney

Yeah, nobody, no offense, Michael, but like the young people don't care what you and I say or do, but like you know, Taylor Swift writing a whole album about how excited she is to get married and have kids, that might actually affect her fan base. And she has a lot of fans.

Michael Klein

Okay, many more fans than listen to this podcast, unfortunately. So that's a good segue into the fact that you launched a new research center at Notre Dame, the Strengthening Families Research Initiative. Can you tell us a bit about why you started this center, and what you hope to achieve with it?

Melissa Kearney

I'm really excited about this work, yeah, thanks for asking about it. So, I'll tell you the genesis really. And, you know, in 2023, I wrote a book called, or published a book with the University of Chicago press called *The Two-Parent Privilege*. What I was calling attention to in that book was the decline in two parent homes among people outside the college-educated class, and how this shifting family structure was contributing to class gaps, and disadvantaging a whole generation of children in this country. I was met with a lot of interest from policymakers, from program officers, from journalists saying, okay, well, how can we help more people achieve these beneficial family structures of stable two parent households...enjoy the economic and personal benefits of marriage And the problem is we don't have much research on how to improve and strengthen families, because there's just been an absence of attention to this relative to, let's say, research and policy interest in how to improve education or healthcare care delivery systems. And so, the genesis for launching this center was to really put research about the economics of families and the economics of fertility – how do we help more people achieve their family goals and strong families for kids – put that on par with these other really important research and policy questions. And so, Notre Dame is a university committed to rigorous research. And so, this center is really unique in the sense that other research centers and other research universities focused on inequality and poverty, they tend not to have it part of their mission be focused on studying families. And so that's what I'm aiming to do with this center is to really elevate research, rigorous research, nonpartisan, non-ideological research into questions about how to strengthen families in this country.

Michael Klein

Well, I wish you the best of luck with that, Melissa. And I want to thank you again for joining me today. It's always a pleasure to talk to you and get your insights on these really important issues.

Melissa Kearney

Thanks so much for having me, Michael.

Michael Klein

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