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**The Demand for Grandchildren:
Children as Family Public Goods and
Implications for Cooperative Bargaining**

January 4, 2026

The Unspoken Grief of Never Becoming a Grandparent

A growing number of Americans are choosing not to have children. Their parents are grappling with what that means for them.

A version of this article appears in print on Nov. 12, 2024, Section A, Page 1 of the New York edition with the headline: Sunset Years in Silent Houses: The Despair of No Grandchildren

Three Big Ideas - 1

1. This is an obvious setting for Coasian bargaining with grandparents bribing parents to have a child -- for example, by provided childcare.

Three Big Ideas - 2

2. This depends on the assumption that we have a bargaining game with few players and low transaction costs.

Three Big Ideas - 3

3. But additional players and greater transaction costs are hovering in the background -- just beyond this story.

Two examples:

Three Big Ideas - 4

3a. Suppose the grandparents have twin adult daughters, each married and each thinking about having children.

This would seem to increase transaction costs as the game expands to include the grandparents, the two daughters, and their husbands.

Three Big Ideas - 5

3b. Suppose both pairs of grandparents -- the maternal grandparents and the paternal grandparents -- want grandchildren.

This would seem to increase transaction costs as the game expands to include more players, some of whom know very little about some of the other players.

Three Big Ideas - 6

As the number of players grows and transaction costs increase, it is less and less obvious that the expanded game is best modeled using a cooperative rather than a noncooperative bargaining model.

Background: Proximity is Crucial for Childcare (You Knew That)

Americans Live Much Closer
to their Parents than you Thought

Geography of the Family - 1

Using NSFH data from 1987-1994, Compton and Pollak
(2014 JUEc)

“...the median distance between married women and their mothers is 20 miles, with one-quarter living within 5 miles of their mothers. Unmarried women live even closer: the median distance is 8 miles when coresidents are included in the distance calculation and 15 miles when they are excluded. Close proximity is strongly correlated with education: 46 percent of ... couples in which neither spouse has a college degree live within 25 miles of both mothers, whereas only 17% of ... couples in which both spouses have college degrees live within 25 miles of both mothers.”

For details on proximity, Compton and Pollak
(2015, Annals)

Geography of the Family - 2

Using PSID data from 2013, Choi, Schoeni, Wiemers, Hotz, and Seltzer (2020 JMF) write:

"Among the adults with at least one living parent or adult child, a significant majority (74.8%) had their nearest parent or adult child within 30 miles, and about one third (35.5%) had all parents and adult children living that close."

Geography of the Family – 3

Declining Internal Migration in US

Molloy, Smith, and Wozniak (2023 JEL)

Olney and Thompson (2024 NBER)

Background I Will Skip

- Grandparents in the demography literature: labor force participation of mothers and of grandmothers
- Grandparents in anthropology and evolutionary biology
- Cooperative Breeding (Sarah Hrdy)
- The evolution of menopause and the “Grandmother hypothesis” (Kristin Hawkes)

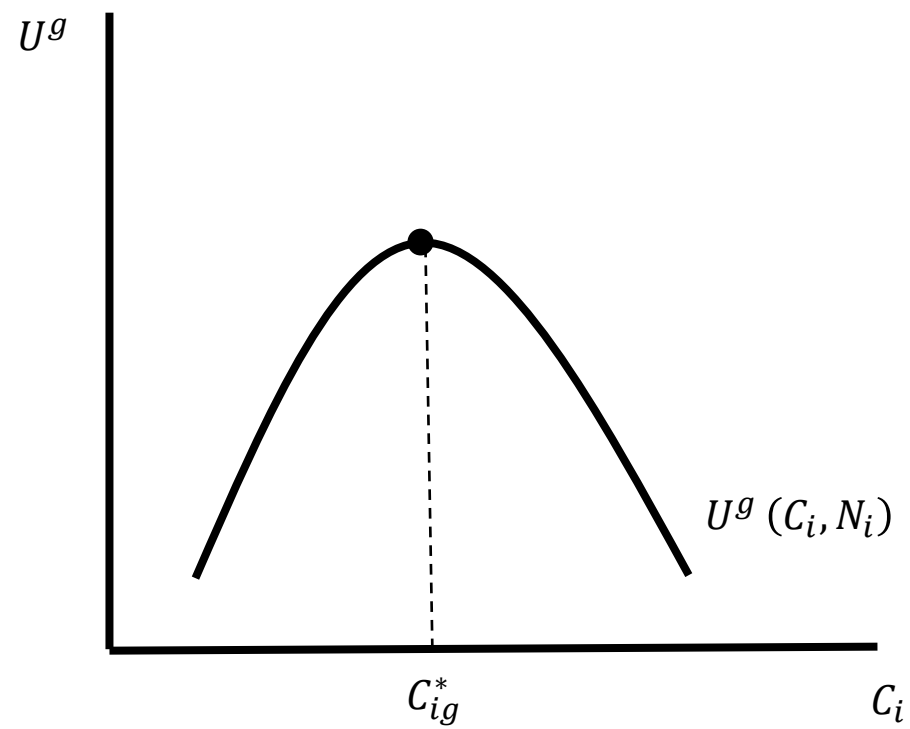
Theory

- Our focus is NOT on prospective spouses in the marriage market making agreements about “completed family size.”
- We focus on the parents’ decision to have another child.
- The Parents start with No children (perhaps 0) and decide whether to have one more child
- $N_+ = N_0 + 1$
- The paper has notations and equations, but this presentation relies almost entirely on figures.

A Noncooperative Sequential Game (Cournot Nash)

- We begin with the Grandparents' utility function:
- We assume Grandparents have “Single Peaked Preferences” as in median voter models.
- Parents move first and make their fertility decision recognizing that Grandparents will respond by providing childcare.
- Grandparents respond by choosing their “bliss level” of childcare

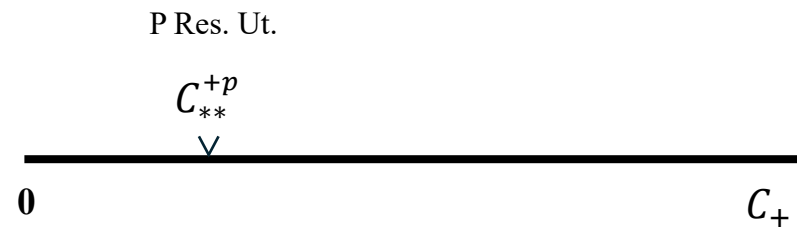
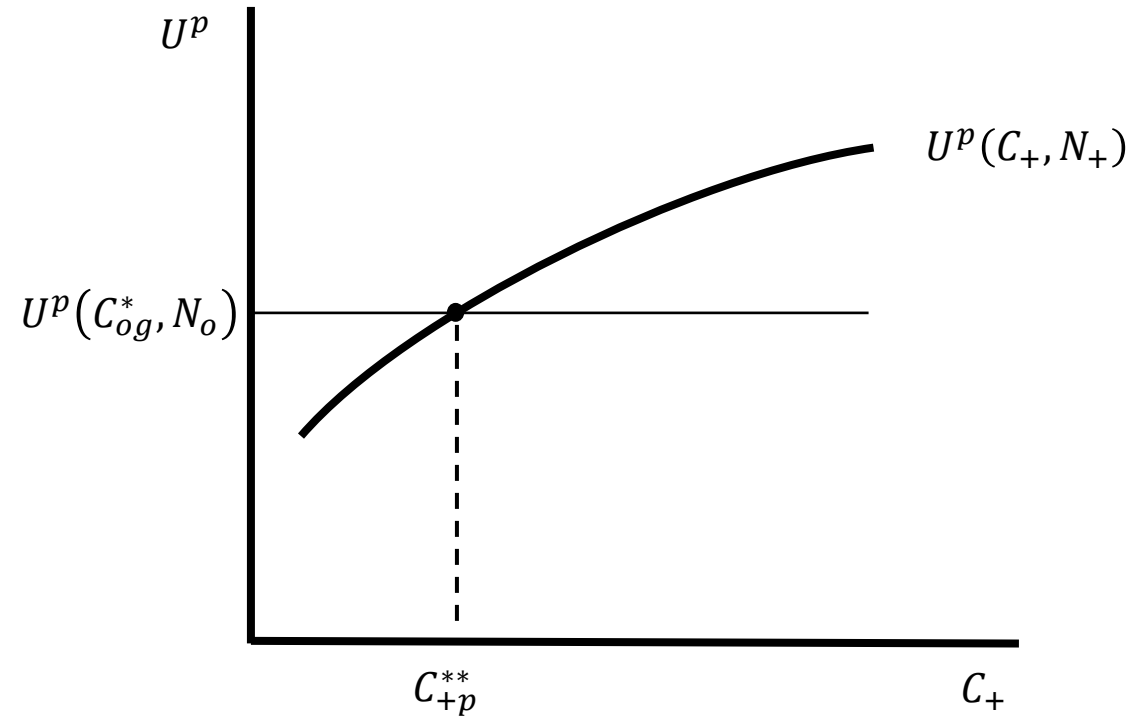
Grandparents' Utility $N = N_i$



Parents' Decision

- The Parents decide to have another child if and only if the Grandparents' bliss level equals or exceeds the Parents' "reservation level" of utility.

Parents' Utility $N = N_+$



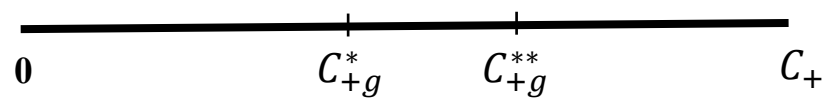
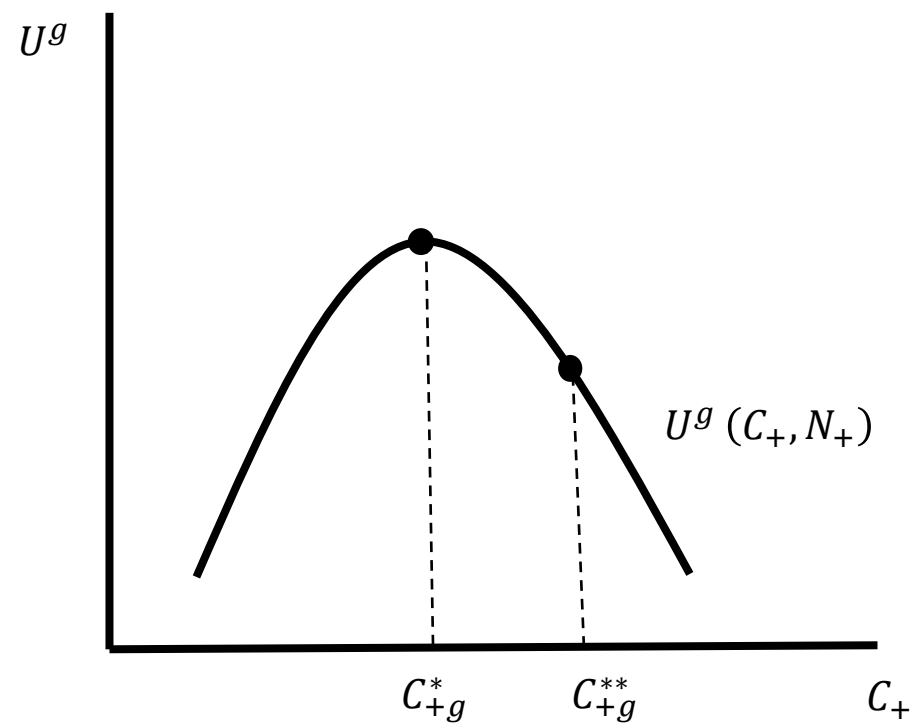
That's It for the Noncooperative Game

We Now Consider a Cooperative Game

As you Know, the Outcome of a Noncooperative Game is not Necessarily Pareto Efficient

- The Grandparents might be willing to provide more childcare than their bliss level if doing so would incentivize the Parents to have another child.
- We call the maximum level of childcare that the Grandparents would provide in order to get another grandchild “maxcent” for “maximum incentive”

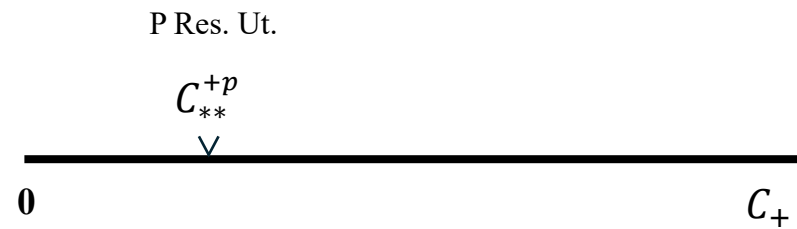
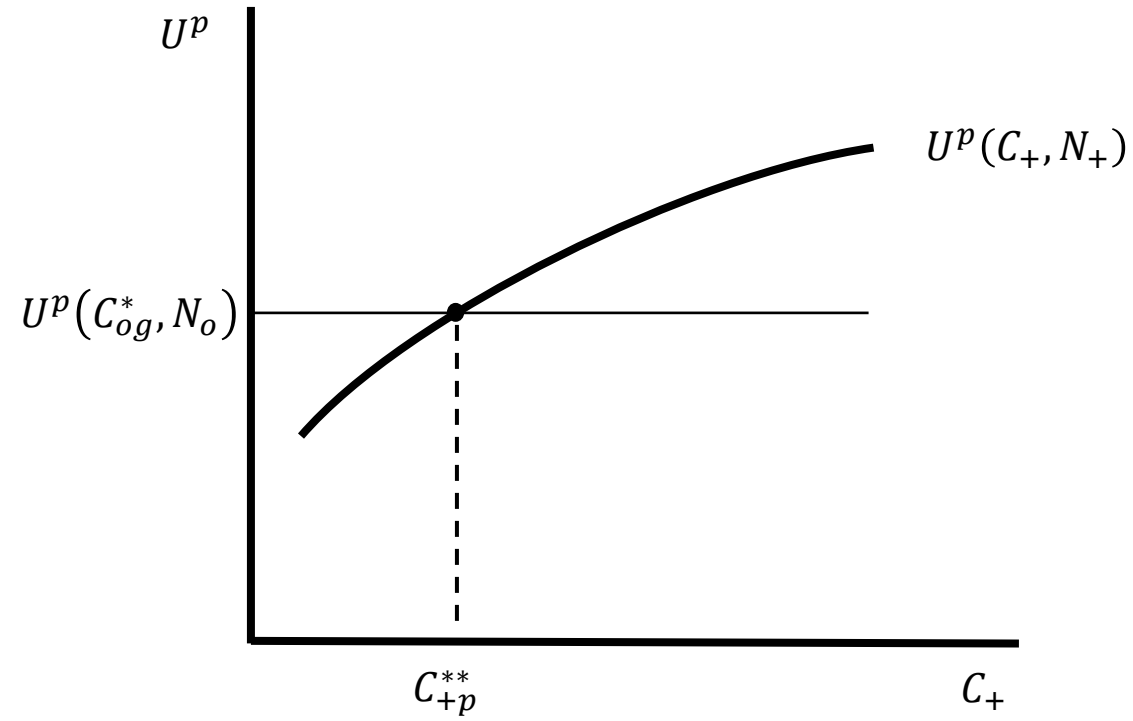
Grandparents' Utility (again) $N = N_+$



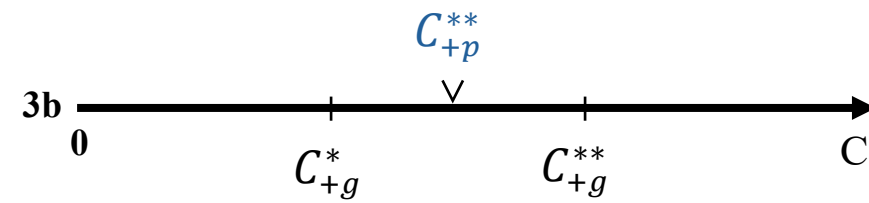
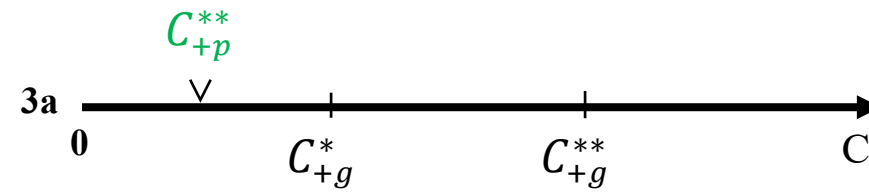
GP
Bliss Point

GP
Maxcent

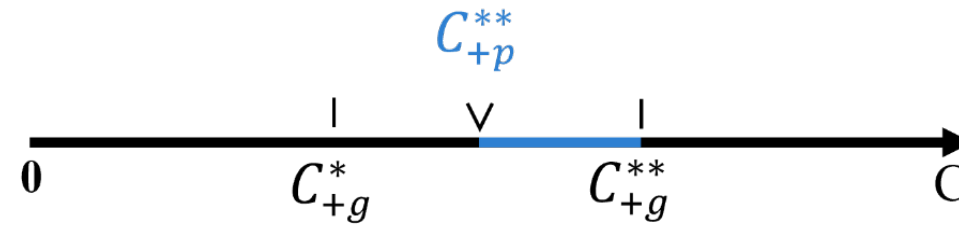
Parents' Utility (again) $N = N_+$



Three Cases



Cooperative Bargaining Equilibria



That's it.

Keeping the Cooperative Equilibrium Together

- You can interpret this as Coasian bargaining. Thus far, bargaining over divorce has been the only application of Coasian bargaining in family economics.
- Coase emphasizes the essential role of zero or low transaction costs
- Zero or low transaction costs is a standard assumption in family economics which is mostly about spouses bargaining in marriage
- You can interpret this more generally as cooperative bargaining, usually Nash bargaining.
- Nash bargaining is the work horse model of family bargaining which is mostly about bargaining in marriage

Dimensions of Low Transaction Cost

- Few players: parents and maternal grandparents
 - Two players? Or Four? (We assume two.)
- Relatively symmetric information: preferences and resources are common knowledge
- Family ties are assumed to be strong enough to support enforcement of informal agreements
- “Trust”

How Robust Is This? - 1

- Recall my subtitle promised something about “implications for cooperative bargaining”
- Two types of extensions that hint at the problems that can arise.

More players

“Complex families”

How Robust Is This? – 2

More Players

- Extension 1. Thus far we have implicitly assumed that the grandparents have only one child.
- Suppose the grandparents have two daughters and that both daughters are married.
- The game now has three (six?) players. The Grandparents, Daughter One and her husband; Daughter Two and her husband.
- Low transaction costs depends on deemphasizing the roles of the daughters' husbands.

How Robust Is This? – 3

More Players

- Extension 2. Suppose there is only one Daughter. But now suppose that the Paternal Grandparents also want Grandchildren.
- The Parents' reservation level of utility is not affected by this.
- Introducing the other pair of Grandparents create both a resource effect and transaction costs effect.
- The resource effect makes it more likely, for example, that the sum of the Grandparents' bliss levels will exceed the Parents' reservation level of utility.

How Robust Is This? – 4

More Players

- But if the sum of the Grandparents' bliss levels do not exceed the Parents' reservation level of utility, then transaction cost will work against a cooperative solution.
- The two pairs of Grandparents need to negotiate how much childcare beyond the bliss point each will contribute.
- The problem is voluntary contributions to a family public good.
- The assumptions that make it plausible that the Parents and one set of Grandparents will reach a cooperative agreement do not apply to bargaining between the two pairs of grandparents who may hardly know and may not like each other.

Complex Families - 1

- These previous examples depend on adding additional players but not introducing what the sociologists and demographers call “complex families.”
- Repartnering (following divorce or the death of a spouse) complicate the analysis by introducing new players whose interests and incentives are unlikely to coincide with those of the individuals they replace.
- Complexity can arise in the parents’ generation, in the grandparents’ generation, or in both.
- Two examples illustrate the complications that may result.

Complex Families – 2

Example 1. Suppose the daughter marries a divorced man with two children. His preferences for additional children may differ from those of a man who has no children, even if his children live with this first wife.

The assumption that the parents are on the same page in terms of fertility is less likely to be the case when this is a second marriage and there are previous (nonjoint) children.

Complex Families - 3

- Example 2. Returning to the grandparents' generation (and keeping in mind that there are two pairs of grandparents), we have tacitly assumed that all grandparents are the biological grandparents.
- Your first thought, especially if you have followed the literature on “gray divorce,” (e.g., Brown and Lin), is that although gray divorce has increased rapidly, it is uncommon and we don't lose much by ignoring it.

Complex Families - 4

- Your second thought should be that the grandparents were once young, and when the grandparents were young they had a son or a daughter who are now potential parents. Let's focus on the maternal grandparents.
- Suppose that the biological grandparents divorced when their child was young, and that each of them remarried and had additional children. That is, the maternal grandmother is no longer married to the (biological) maternal grandfather, but to another man who with whom she has joint children. He may, however, have little interest in providing childcare for the children of his stepdaughter.

Conclusion -1

Implications for Cooperative Family Bargaining

- Symmetric cooperative bargaining models are the workhorse models in Family Economics.
- But Family Economics is mostly Household Economics and focuses on spouses bargaining in marriage
- What happens when we consider the family beyond the household.
- In our subtitle, you remember, we characterized children as “family public goods” not as “household public goods.”

Conclusion - 2

Implications for Cooperative Family Bargaining

We consider the family beyond the household.

It involves more players and it may involve what sociologists and demographers call “complexity” as the result of repartnering after divorce or the death of a spouse.

These changes cast doubt on the assumption of zero or low transaction costs and, hence, on the appropriateness of cooperative as opposed to noncooperative bargaining models as we consider the Family Beyond the Household.

Thank You for Your Attention