

Fertility, Education, Inequality, and Economic Growth

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January 29, 2026

This study extends the Barro–Becker model of endogenous fertility and intergenerational transfers by incorporating human capital investment in children and life-cycle savings decisions. Furthermore, this study transforms the model to a Bewley-type heterogeneous agent OLG-dynasty model by incorporating idiosyncratic shocks to labor income, human capital, and wealth. Calibrating the model to the U.S. economy, this study quantitatively analyzes the potential impacts of child-related policies—such as child allowances, education subsidies, and estate tax cuts—on heterogeneous households’ decision-making, economic growth, and income and wealth distribution. Policy experiments in this study suggest that child allowances would increase the fertility rate in the short run but decrease human capital investment and wealth accumulation in the long run. Therefore, the long run effects of child allowances on the fertility rate would likely be small. The effects of child-related policies on income/wealth inequality and intergenerational income mobility are generally limited. One reason for this is that optimal decisions by altruistic households involve intergenerational risk sharing.

JEL Classification Numbers: C61, D15, H31, I24, J13.

Key Words: dynamic general equilibrium; heterogeneous agents; overlapping generations.

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