

The Macroeconomic Dynamics of Family Policies: Endogenous Fertility and Human Capital Accumulation

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Abstract

This paper develops a three-period overlapping generations model with heterogeneous households differing in marital status, age, and human capital. A key feature of this model is that households endogenously determine fertility and education investment in children. Calibrating the model to the Japanese economy, this paper analyzes the effects of family policies such as child benefits, education subsidies, and public childcare services on fertility, human capital investment in children, and macroeconomic performance. Child benefits and public childcare services increase fertility but decrease education investment in children, which leads to a decrease output in the long run. On the other hand, education subsidies increase education investment in children but decrease fertility, which improves the macroeconomic performance per capita in the long run.