

Education Policies, Fertility Differentials, and Macroeconomic Outcomes*

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Abstract

In most high-income countries, more educated people (e.g., college graduates) have fewer children and spend more on their children's education. This study investigates the macroeconomic consequences of subsidies for higher education, considering the fertility-education margins. I construct a heterogeneous-agent general-equilibrium overlapping-generations model with choices regarding fertility, college enrollment, and inter vivos transfers. The model is calibrated to Japan and replicates relevant non-targeted moments regarding households' fertility behavior. Fertility choices are irreversible, and households make choices in the presence of uncertainty regarding their future income and children's characteristics. I find that income-tested college subsidy provides partial insurance against costly states associated with having a child. College graduates benefit more from this insurance, and the policy stimulates the fertility of college graduates, including ex-post ineligible ones whose children do not receive the subsidy. This fertility response amplifies the policy effects on college enrollment and output, operating through intergenerational linkages and distribution changes.

Keywords: Fertility, education, intergenerational linkages

JEL codes: C68, I28, J13, J24

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