

# Welfare effects of child allowances in an overlapping generations model with status-seeking

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**Abstract** This paper constructs an overlapping generations model with endogenous fertility, in which agents have concerns about the number of children they have and their relative income to the social average, the latter stemming from status-seeking motives. Rearing children is assumed to be time-consuming. In the model, status desire induces agents to work more, and thereby to have fewer children. Thus, the equilibrium fertility rate is distorted by the externalities associated with status preferences. We then examine whether or not introducing child allowances can improve the efficiency of the economy, in the sense of the efficiency criterion for endogenous fertility models proposed by Michel and Wigniolle (2007, *Economic Theory*, Vol. 31). It is shown that, if the economy converges in under-accumulation, introducing child allowances may not improve the efficiency even under the distortion of externalities, since it may harm the utility of agents in the future generations.

**Keywords:** Endogenous fertility, Relative income, Status-seeking, Child allowances

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