

# Education Policies, Income Gaps, and Human Capital Accumulation

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## ABSTRACT

This study employs an overlapping-generations model featuring public and private education to analyze whether providing child allowances and free high school education influence economic growth. Earlier studies that analyze public and private education (Glomm and Ravikumar, 1992; Cardak, 2004) do not consider endogenous fertility and whether individuals simultaneously choose public and private education. Earlier studies that consider endogenous fertility and child allowances (Groezen, Leers, and Mejidam, 2003) disregard human capital accumulation. This study assumes people can choose both public and private education simultaneously and considers endogenous fertility and human capital accumulation. It introduces both child allowances and investment in public education financed by income taxes. Moreover, this study assumes that people can not promote human capital accumulation if educational expenditures are not enough. It further considers how raising child allowances or investing in public education affects endogenous fertility, human capital accumulation, and economic growth. This study is motivated by evidence that the burden of meeting children's educational expenses is partly responsible for Japan's declining birthrate and income gaps. It analyzes whether child allowances and free high school education can improve them. We find it unlikely such policies promote economic growth and narrow income gap if they are financed by income taxes that cannot be increased indefinitely.

**Key words:** *Human Capital, Overlapping-Generations, Education Policies, Income Gaps, Economic Growth.*

**JEL Classification:** O15, I25, H52