

Child Allowance, Income Inequality, 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 or free high school education influence income inequality and human capital accumulation. 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 and classifies human capital into two income groups—high and low—. It further considers how raising child allowances or investment in public education affects endogenous fertility, human capital accumulation, and economic growth. We find that if people in low income group use child allowance for their consumption, raising child allowances widens income inequality and neither policy assures economic growth.

Key words: *Human Capital, Overlapping-Generations, Child Allowance, Free High School Education, Economic Growth.*

JEL Classification: I25, O15, H52