

Economic Growth and Wealth Inequality: The Role of Differential Fertility

Alessandro Ferrari

Bank of Italy

alessandro.ferrari@bancaditalia.it

Alessandro Di Nola

Konstanz University

The intra-cohort inequality among young increased in the last twenty years contributing to the overall increase in wealth inequality. This paper quantitatively assesses the role of parents' expectations and their subsequent fertility decision in explaining wealth inequality. Using the Barro-Becker model of fertility in a setup with aggregate and idiosyncratic shocks with incomplete markets à la Bewley we show that a negative aggregate shock determines a fall of fertility and an increase in per-capita bequests which is greater in magnitude for the right tail of the wealth distribution thus determining an increase in wealth inequality. We calibrate the model to the U.S. economy and find that the slowdown in economic growth and the subsequent decline in fertility can explain around 40 percent of the increase in wealth inequality observed in the data. We then revisit the micro data (from SCF and PSID) and we find empirical evidence that strongly supports the model mechanism.