The Gender Gap, Fertiltiy and Growth

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July 1993

Abstract

This paper examines a novel mechanism linking fertility and growth. There are three components to the model: First, increases in capital per worker raise women's relative wages, since capital is more complementary to women's labor input than to men's. Second, increasing women's relative wages reduces fertility by raising the cost of children more than household income. And third, lower fertility raises the level of capital per worker. This positive feedback loop generates a demographic transition: a rapid decline in fertility accompanied by accelerated output growth.

JEL classification Numbers: O11, O15, O40.

1 Introduction

Changes in fertility have long been recognized as important correlates of economic growth. Indeed, the relationship between the level of fertility and the level of income per capita is one of the strongest observable correlations in cross country data. The nature of the relationship between development and fertility has been studied from the perspective of the theory of growth as well as from the perspective of family economics. Growth theory has focussed on the negative effect of population growth on the level of capital per worker, and thus on the level of output per worker, whereas family economics has focussed on the changes in the economic environment that lead families to reduce fertility as countries become wealthier.

This paper integrates these two strands of literature. It combines a model of the household's fertility/labor supply choice with a growth model in which the wages of men and women are endogenously determined. The main concern of the study is with how growth, via changes in women's relative wages, affects household decisions about the level of fertility and women's labor force participation, and how these decisions in turn feed back through the aggregate production mechanism to affect output growth.

Several recent studies of fertility and growth have focussed on various mechanisms by which the two variables are related. Gary S. Becker and Robert J. Barro (1988) consider fertility in the context of a model of intergenerational altruism, in which the discount applied to future utility depends negatively on the number of descendants in future generations. In their model, increased technological progress will lead to a higher growth rate of consumption and to a lower rate of fertility. Gary S. Becker et al. (1990) examine a model in which a high societal level of human capital raises the return to individual investments in human capital. In economies with high levels of human capital, families find it optimal to have few children, and to provide each child with a high level of human capital. The high level of human capital also leads to a high rate of economic growth, and thus economic growth is negatively correlated with fertility. Costas Azariadis and Allan Drazen (1990) explain the decline in fertility in the face of economic growth in a model where fertility is driven by individuals' desire to provide for their old age: an increase in market wages worsens the bargaining positions of parents whose principal asset is a family farm, leading to a reduction in the value of children.[1]

In this paper we examine a different mechanism linking fertility and growth, one that is more rooted in pre-existing models of fertility. The model we present has three important components: First, the fertility decision of the household is taken to be a function of the relative wages of women and men. Higher wages for women raise the cost of children relatively more than they raise household

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[1]In the model of Michael Kremer (1993), the growth rate of output is indirectly related to fertility via the effect of the size of the population on the growth rate of output.

income, and lead to a reduction in the number of children that couples choose to have. Second, the rate of population growth affects the level of capital per worker. Finally, the level of capital per worker affects the relative wages of men and women. Higher capital per worker raises women's relative wages.

The first part of our story – the analysis of fertility in terms of men's and women's relative wages – dates back to Gary S. Becker (1960) and Jacob Mincer (1963). Children are considered durable goods that appear in the parents' utility function. The pure effect of an increase in household income holding the price of children constant is to raise the demand for children. If all childrearing is done by women, an increase in men's wages will have such a pure income effect. Increases in women's wages raise both household income and the price of children, and so have offsetting income and substitution effects on the demand for children. The overall effect on fertility of a proportional increase in men's and women's wages is theoretically ambiguous. One way to draw the link between economic growth and fertility declines is to simply assume that the utility function is such that the substitution effect dominates and so fertility falls as countries become richer. We take a more restrictive approach in this paper, choosing a utility function under which proportional increases in men's and women's wages will keep fertility constant. Instead, we focus on a theoretically less ambiguous channel: the effect of an increase in women's *relative* wage in lowering fertility. Examples of the application of this model are James J. Heckman and James R. Walker (1990) and William P. Butz and Michael P. Ward (1979), both of which find a negative effect of women's wages and a positive effect of male income on birth rates. Similarly, T. Paul Schultz (1985), using world changes in the prices of agricultural commodiies as an instrument to overcome the endogeneity of income and labor supply, finds that an increase in the relative wages of women played an important role in Sweden's fertility transition.

The second part of our story – the effect of population growth on the level of capital per worker – is a standard part of almost all growth models. Robert J. Barro (1991) and N. Gregroy Mankiw et al. (1992), among many others, cite the effect of capital dilution to explain the negative coefficient on the rate of population growth in cross-country regressions of either the level or the growth rate of income.

The final piece of our story is that an increase in the capital intensity of the economy raises the relative wages of women. An increase in women's relative wages seems to be part of the process of economic development. In the U.S., full time earnings of women rose from 46% to 67% of men's earnings over the period 1890-1988 (Claudia Goldin, 1990; Francine Blau and Lawrence Kahn, 1992). Although data are not available for all sectors of the economy, Goldin reports that women's relative wages rose significantly over the course of the Nineteenth Century in both agriculture and manufacturing. T. Paul Schultz (1981) reports that, although the data are of uneven quality, a

similar increase is present in a sample of countries over the period 1938-78. One explanation for this rise in women's wages is that as economies develop, they are more prone to reward the attributes in which women have a comparative advantage. [2] For the purposes of our model, we focus on a simplified description of the differences in factor endowments between the sexes: while women and men have equal quantities of brains, men have more brawn. And, the more developed is an economy, the higher the rewards of brains relative to brawn.

The three pieces of our model lead to a positive feedback loop: increases in the capital/labor ratio raise the relative wages of women. Increases in relative wages lead women, in turn, to substitute out of childrearing and into market labor. Both higher wage earnings (and thus savings) and reduced population growth increase the level of capital per worker. Thus high relative wages for women are both a product of, and a causal factor in, economic growth.

In addition to providing insight into the relationship between capital formation and women's relative wages the paper sheds some new light on the causes of fertility transitions. As long as women do not participate in the labor force, the level of output grows at a decreasing rate while fertility remains high. However, once the per-worker capital stock is sufficiently high so as to support an attractive relative wage to women, they are induced to join the labor force and the economy experiences an acceleration output growth that is associated with a rapid decline in fertility. Ultimately, the growth rate declines as output converges to a steady-state equilibrium with a lower fertility rate and higher labor force participation by women.

The model may also exhibit multiple stable steady state equilibria. In one steady state, fertility is high, output and capital per worker are low, and women's wages relative to those of men are low. In the other steady state, fertility is low, output and capital per worker are high, and women's relative wages are high. Thus initial conditions may determine a country's long-run steady state equilibrium. Countries with a low initial level of capital per-worker may converge to a development trap where high fertility induces lower per-worker capital and output which in turn induces women, who confront low relative wages, to maintain their high fertility rate and low labor supply.

The rest of this paper is organized as follows. In Section I, we formalize the assumptions about the determinants of fertility and relative wages presented above, and incorporate them into an overlapping generations model. We derive the dynamical system implied by the model, and analyze the evolution of the economy along transitions to the steady state. Section II considers the dynamics of the model in the case where the state of technology is constant, and where it is growing

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[2]For example, Goldin concludes that industrialization at the beginning of the 19th century was responsible for a dramatic increase in the relative wages of women. Further, industrialization is often associated with an increased demand for fine motor skills (e.g., textiles during the industrialization of the United States and the United Kingdom, and electronics in present-day Asia) in which women have both comparative and absolute advantage.

exogenously over time.

In Section III, we consider extensions of the model that match the U-shaped relation between the level of output and women's labor force participation observed in the data. We consider both the effects of constraints on the supply of children due to low fertility and high infant mortality that face households in less-developed economies, and also the existence of a productive technology that is not rival with raising children. Section IV concludes by discussing possible extensions of the model, in particular the effect of incorporating human capital accumulation.

2   Structure of the Model

We consider an overlapping generations model in which people live for three periods. In the first period of life, people are children: they consume a fixed quantity of time from their parents. In the second period of life, people raise children and supply labor to the market, earning a wage. For convenience, we assume that they do not consume in this period. In the third period of life people do not work, and they consume their wages from the previous period along with accrued interest. The capital stock in each period is equal to the aggregate savings in the previous period.

We model the economy as being made up of two kinds of people: men and women. In childhood and old age, the men and women are identical. In adulthood, however, men and women differ in terms of their ability to earn wages in the labor market. Men and women are endowed with different proportions of two kinds of labor input. Workers can supply both raw physical strength and mental input. We assume that men and women have equal endowments of mental input to contribute, but that men have more physical strength than women.

Although we are concerned with the differences between men and women, our basic unit of analysis is the couple, which is composed of one man and one woman. Couples are taken to have joint consumption and joint utility. There is no heterogeneity within a generation. Rather than model the matching of men and women, we assume that couples are "born" as such.

2.1   Production

There are three factors of production: physical capital, K, physical labor, L^p, and mental labor L^m. Physical labor is the kind of labor in which men have superior abilities to women, that is, work requiring strength. Mental labor is labor in which men and women have equal abilities. To simplify matters we will assume that women have *no* physical strength, but the results presented below will follow as long as women have less strength than men.[3]

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[3]We do not include human capital as a productive factor in the model, but we discuss the effect of doing so in the conclusion.

Our key assumption will be that, the richer in physical capital is an economy, the more highly rewarded is mental labor relative to physical labor.[4] To give a simple example, if the only form of capital is a shovel, then men will be far more productive in digging ditches than will be women. If there is more capital available — in the form of a backhoe, for example — then the relative productivity of men and women will be more nearly equal. The reason for this effect is that, at least so far, physical capital does a better job replacing human strength than it does replacing human thinking.[5]

Other work in this area has placed far more severe restrictions on the production function. For example, Becker et al. (1990) assume that, holding other factors constant, there are increasing returns to human capital over some range of the production function. By contrast, we make the standard assumption that all factors have non-increasing marginal products.

Technically, our assumption is that an increase in physical capital input raises the marginal product of mental labor proportionally more than it raises the marginal product of physical labor. In other words, physical capital complements mental labor more than it complements physical labor. Zvi Griliches (1970) proposes just such an assumption to explain the failure of the relative wage of educated workers to fall in the face of growth in the stocks of physical capital and educated labor. Whether physical capital actually reduces the marginal product of physical labor we consider an open question, but the answer is not essential for our results.

The production function that we use incorporates the above assumptions in a simple way: we assume that physical capital and mental labor exhibit complementarity in production, whereas physical labor is neither a complement nor a substitute for either of the other factors of production. Specifically, the production function is:

$$Y_t = a[\alpha K_t^\rho + (1-\alpha)(L_t^m)^\rho]^{1/\rho} + bL_t^p, \tag{1}$$

where $a, b > 0$, $\alpha \in (0,1)$ and $\rho \in (-\infty, 1)$.[6] Exogenous technological progress is considered in Section II.B.

Since only men supply physical labor and, as will be justified below, men supply this labor inelastically, the total amount of physical labor input, L^p, is equal to the number of working-age couples. We can thus rewrite the production function in per-couple terms as

$$y_t = a[\alpha k_t^\rho + (1-\alpha)m_t^\rho]^{1/\rho} + b \tag{2}$$

[4]For example, Goldin (1990, p. 59) writes "The labor market's rewards for strength, which made up a large fraction of earnings in the nineteenth century, ought to be minimized by the adoption of machinery, and its rewards for brain power ought to be increased."

[5]This idea — that the reward to physical labor is falling relative to the reward to mental labor — has appeared in labor economics in discussions of growth of the wage premium to educated workers. See Lawrence F. Katz and Kevin M. Murphy (1992) and Jacob Mincer (1991).

[6]$\rho \in (-\infty, 0)$ implies that the elasticity of substitution between capital and mental labor is smaller than one. As ρ increases in absolute value the complementarity between capital and mental labor rises.

where $k_t \equiv K_t/L_t^p$ is the per-couple capital stock at time t and $m_t \equiv L_t^m/L_t^p$ is the per-couple input of mental labor. Since the man will always supply one unit of physical and one unit of mental labor, and the woman will supply between zero and one units of mental labor, the variable m will take values between one and two.

All factors of production are assumed to earn their marginal products. Given the structure of the production technology, the return to a unit of physical labor at time t, w_t^p, and the return to mental labor at time t, w_t^m, are

$$w_t^p = b \tag{3}$$

$$w_t^m = a(1-\alpha)m_t^{\rho-1}[\alpha k_t^\rho + (1-\alpha)m_t^\rho]^{\frac{1-\rho}{\rho}} \tag{4}$$

Men earn a wage of $w_t^p + w_t^m$, while women earn a wage of w_t^m. Increases in the amount of physical capital, holding m_t constant, raise the return to mental labor thus reducing the proportional wage gap between men and women.

2.2 Couples' Decision Problem

Couples receive utility from the number of children that they have and from consumption in the last period of life. There is no uncertainty and no bequest motive. The utility function is

$$u_t = \gamma \ \ln(n_t) + (1-\gamma) \ \ln(c_{t+1}) \tag{5}$$

where n_t is the number of children that the couple has.[7] Note that since the basic unit of counting that we are using in this model is the couple, n_t is in fact the number of *couples* that each couple has as children.

We follow the standard "demand" model of household fertility behavior (see Nancy Birdsall, 1988, for a summary) in assuming that the household chooses the number of children to have in the face of a constraint on the total amount of time that can be devoted to child-raising and labor market activities.[8] We assume that the only input required to raise children is time; footnote 12 below considers the case where both time and goods are required. Time spent raising children cannot be spent working, and so the opportunity cost of children is proportional to the market wage. We ignore any issues of child quality, focusing only on the quantity of children.[9] We do not

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[7] The log-linear specification of the utility function implies that fertility decisions are independent of the interest rate. Utility from consumption in period t could have been incorporated into the analysis without altering the qualitative nature of this paper's results. In particular, if couples had logarithmic utility from consumption in the two periods of life, the fraction of output saved in period t to be consumed in period $t+1$ would be constant. Thus the dynamical system that governs the evolution of the economy would be altered only by a multiplicative constant.

[8] In Section III we consider the effect of adding to the model a "supply" constraint on the number of live children that can be produced.

[9] In reality, both decreases in total time spent childrearing and increases in time input per child are components of fertility transitions. Our model addresses only the latter.

assume that women are better at raising children than are men but, given the differences in factor endowment between men and women, the opportunity cost of raising children is higher for a man than for a woman. Thus, as in Gary S. Becker (1985), a small difference in endowments can lead to specialization and to large differences in earnings. Adding an assumption that women are superior to men in their child-rearing abilities would not affect our results.

The household's income in the first period is $w_t^p + 2w_t^m$ if the family does not have any children. Let z be the cost in time of raising one child, that is, z is the fraction of the time endowment of one parent that must be spent in order to raise one child.[10] If the wife spends time raising children, then the marginal cost of a child is $z \cdot w_t^m$. If the husband spends time raising children, then the marginal cost of a child is $z \cdot (w_t^m + w_t^p)$. Consequently if $zn_t \leq 1$ only the wife raises children, while if $zn_t > 1$ the wife will spend full-time and the husband part time raising children.

Since the couple does not generate utility from consumption at time t, the couple's income is divided between expenditure on child rearing and savings for future consumption, s_t, so as to maximize their intertemporal utility function. In the first period, the couple faces the budget constraint:[11]

$$w_t^m zn_t \quad + \quad s_t \leq w_t^p + 2w_t^m \qquad \qquad \text{if} \quad zn_t \leq 1$$

$$w_t^m \quad + \quad (w_t^m + w_t^p)(zn_t - 1) + s_t \leq w_t^p + 2w_t^m \quad \text{if} \quad zn_t \geq 1$$

In the second period, the couple simply consumes the value of their savings with accrued interest:

$$c_{t+1} = s_t(1 + r_{t+1}). \tag{6}$$

The only decision that the household makes is how many children to have — alternatively, the household can be seen as deciding what fraction of its time should be spent working, and thus saving for future consumption, and what fraction raising children.

Figure 1 shows the kinked budget constraint facing the couple. There are three possible optima: first, if an indifference curve is tangent to the lower portion of the budget constraint, at a point like A, the woman will work part time and raise children part time, while the man works full time. Second, if an indifference curve is tangent to the upper portion of the budget constraint, at a point like B, then the man will work part time and raise children part time, while the woman raises children full time. It is obvious that both of these two conditions cannot hold at the same time. Finally, if neither of these conditions holds, then the couple's optimum will be at the kink

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[10] The existence of economies of scale in raising children will not affect the analysis of division of labor within the household presented here. Since increasing returns to scale in childrearing will affect men and women alike, the division of labor, which is based on comparative advantage, will not be altered.

[11] Alternatively, the budget constraint can be written as: $zn_t w_t^m + w_t^p \max[0, zn_t - 1] + s_t \leq w_t^p + 2w_t^m$.

point C, where men and women are completely specialized; women raising children full time and men working full time.

Maximizing (5) with respect to n_t subject to (6) and (7) it follows that the time spent by parents on raising children is,

$$
zn_t = \begin{cases} \gamma\{2 + (w_t^p/w_t^m)\} & \text{if} \quad \gamma\{2 + (w_t^p/w_t^m)\} \leq 1 \\ 2\gamma & \text{if} \quad 2\gamma > 1 \\ 1 & \text{otherwise} \end{cases}
$$

For a sufficiently low relative wages of mental labor, (8) implies that women raise children full time. As the relative wage of mental labor increases, women may join the labor force and increase gradually the fraction of their time devoted to market labor. In the limit, as the wage of mental labor rises, women spend a fraction $\min(1, 2\gamma)$ of their time raising children. Note that if $\gamma > 1/2$, then women will not supply labor and will devote themselves for raising children, no matter how high the wage of mental labor. Since we observe that women do supply labor when their wages are sufficiently high, we will restrict γ to be less than $1/2$. This assumption guarantees that for some low enough ratio of (w_t^p/w_t^m) women will supply labor. Furthermore, as follows from (8) this restriction implies that zn_t is necessarily bounded from above by one and consequently men allocate their entire time endowment to work and do not participate in raising children. Figure 2 shows the effect of an increase in the relative wage of women on the couple's choice of fertility and saving.[12]

Thus, given that $\gamma < 1/2$,

$$
zn_t = \min[1, \gamma \{2 + (w_t^p/w_t^m)\}], \tag{7}
$$

and the couple's saving is[13]

$$
s_t = \begin{cases} (1 - \gamma)[w_t^p + 2w_t^m] & \text{if} \quad zn_t \leq 1 \\ w_t^p + w_t^m & \text{if} \quad zn_t = 1. \end{cases}
$$

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[12] The model can be extended to allow for fixed proportions of time and goods in childrearing. Let x be the cost in terms of goods of raising one child. As follows from the household maximization problem, as long as the husband works full time, the optimal number of children is

$$
n = min[1, \gamma(w^p + 2w^m)/(zw^m + x)].
$$

Thus an increase in capital per couple, which increases the wage for mental labor while holding the wage for physical labor constant, reduces fertility if x is not too large.

[13] Note that if $zn_t = 1$ it follows from (9) that $w_t^p/w_t^m = (1 - 2\gamma)/\gamma$. Consequently, for $zn_t = 1$, as suggested by (10), $(1 - \gamma)[w_t^p + 2w_t^m] = w_t^p + w_t^m$.

Since

$$m_t = \frac{L_t^m}{L_t^p} = \frac{L_t(2 - zn_t)}{L_t} = 2 - zn_t \qquad (8)$$

it follows from (9) and (11) that, for $\gamma < \frac{1}{2}$,

$$zn_t = \min[1, \gamma\{2 + b/\{a(1-\alpha)(2-zn_t)^{\rho-1}[\alpha k_t^\rho + (1-\alpha)(2-zn_t)^\rho]^{\frac{1-\rho}{\rho}}\}]. \qquad (9)$$

Let $G(zn_t, k_t) \equiv zn_t - \gamma\{2 + b/\{a(1-\alpha)(2-zn_t)^{\rho-1}[\alpha k_t^\rho + (1-\alpha)(2-zn_t)^\rho]^{\frac{1-\rho}{\rho}}\} = 0$. Following the implicit function theorem since $\partial G(zn_t, k_t)/\partial n_t$ is strictly monotonic and non-vanishing $\forall k_t \geq 0$, there exists a differentiable and invertible function $\psi(k_t)$ such that

$$zn_t = \min[1, \psi(k_t)], \qquad (10)$$

where $\psi'(k_t) < 0 \;\; \forall k_t \geq 0$.

Since $zn_t = 1$ if and only if $k_t \leq k^*$, where

$$k^* = \psi^{-1}(1), \qquad (11)$$

it follows that

$$zn_t = \begin{cases} \psi(k_t) & \text{for} \quad k_t \geq k^* \\ 1 & \text{for} \quad k_t \leq k^* \end{cases}$$

where $\psi(k_t) \in (0, 1] \;\; \forall k_t \geq k^*$. k^* is thus the highest level of capital per couple for which women will raise children full time.

2.3 The Dynamical System

The stock of capital at time $t + 1$ is determined by the aggregate supply of savings at time t:

$$K_{t+1} = L_t s_t. \qquad (12)$$

The number of working age households at time $t + 1$ is

$$L_{t+1} = n_t L_t. \qquad (13)$$

Thus, following (9), (10) and the definition of k^{*}[14]

$$k_{t+1} = \frac{s_t}{n_t} = \begin{cases} z\,\frac{1-\gamma}{\gamma}\,w_t^m & \text{if} \;\; k_t \geq k^* \\ z[w_t^p + w_t^m] & \text{if} \;\; k_t \leq k^* \end{cases}$$

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[14]Note that as follows from (10) $k_t = k^*$ (and thus $zn_t = 1$) if $w_t^p/w_t^m = (1 - 2\gamma)/\gamma$. Thus, for $k_t = k^*$, as suggested by (18) $z[(1-\gamma)/\gamma]w_t^m = z[w_t^p + w_t^m]$.

The dynamical system is governed by the evolution of the per-couple capital stock from an historically given initial stock of capital. Using (3), (4), (11), (15) and (18), the dynamic equilibrium sequence $\{k_t\}_{t=0}^{\infty}$ is determined by

$$k_{t+1} = \phi(k_t) = \begin{cases} za(1-\alpha)\frac{1-\gamma}{\gamma}\frac{\{\alpha k^\rho+(1-\alpha)[2-\psi(k_t)]^\rho\}^{\frac{1-\rho}{\rho}}}{[2-\psi(k_t)]^{1-\rho}} & \text{if } k_t \geq k^* \\[2em] z\{b + a(1-\alpha)[\alpha k_t^\rho + (1-\alpha)]^{\frac{1-\rho}{\rho}}\} & \text{if } k_t \leq k^* \end{cases}$$

where the initial level of per-couple capital stock, k_0, is historically given.

Along the dynamic path k_t evolves monotonically:

$$\phi'(k_t) = \begin{cases} \alpha\frac{1-\gamma}{\gamma}Ak_t^{\rho-1}\dfrac{[2-\psi(k_t)+k_t\psi'(k_t)]}{[2-\psi(k_t)]^{2-\rho}\{\alpha k_t^\rho+(1-\alpha)[2-\psi(k_t)]^\rho\}^{2-\frac{1}{\rho}}} > 0 & \text{if } k_t \in (k^*, \infty) \\[2em] \alpha Ak_t^{\rho-1}[\alpha k_t^\rho + (1-\alpha)]^{\frac{1}{\rho}-2} > 0 & \text{if } k_t \in (0, k^*) \end{cases}$$

where $A \equiv za(1-\alpha)(1-\rho)$.

Furthermore, as obtained from (19) and (20)

$$\phi(0) = z[b + a(1-\alpha)^{1/\rho}] > 0;$$

$$\lim_{k_t \to \infty} \phi'(k_t) = 0;$$

and,

$$\phi''(k_t) = \frac{\alpha Ak_t^{\rho-2}[(1-\alpha)(\rho-1) - \alpha\rho k_t^\rho]}{[\alpha k_t^\rho + (1-\alpha)]^{3-\frac{1}{\rho}}} \qquad \forall k_t \in (0, k^*). \tag{14}$$

Consequently,

$$\lim_{k_t \to 0} \phi''(k_t) \begin{cases} < 0 & \text{if } \rho \in [0,1) \\[1em] > 0 & \text{if } \rho \in (-\infty, 0) \end{cases}$$

and

$$\phi''(k_t) < 0 \quad \forall k_t \in (0, k^*) \text{ if } \rho \in [0,1). \tag{15}$$

Thus, as long as ρ is non-negative (i.e., the degree if complementarity between mental labor and capital is relatively small), $\phi(k_t)$ is strictly concave over the internal $(0, k^*)$, whereas as long as ρ is negative (i.e., the degree of complementarity between mental labor and capital is relatively large), $\phi(k_t)$ is strictly convex over the interval $[0, \tilde{k})$ where $\tilde{k} \in (0, k^*)$.

2.4 Steady-State Equilibria

A steady-state equilibrium is a stationary level of the per-couple capital stock $\overline{k}$, such that

$$\overline{k} = \phi(\overline{k}). \tag{16}$$

As follows from (2) and (15), $\overline{k}$ determines uniquely a stationary fertility rate $\overline{n}$ and a stationary level of the per-couple output $\overline{y}$. The stationary fertility rate is given by

$$\overline{n} = \begin{cases} \psi(\overline{k})/z & \text{if} \ \ \overline{k} \geq k^* \\[2mm] 1/z & \text{if} \ \ \overline{k} \leq k^* \end{cases}$$

Generically, the population either grows or contracts at a constant rate, depending on the value of z. The introduction of a productive factor, such as land, which cannot be accumulated in proportion to population could lead to a steady state in which the level of population, rather than its growth rate, was constant.

Since $\phi(k_t)$ is a continuous function of k_t, a steady-state equilibrium exists if $\phi(0) > 0$ and there exists k_t such that $\phi(k_t) < k_t$. As established in (23) $\phi(0) > 0$, $\lim_{k_t \to \infty} \phi'(k_t) = 0$, and therefore $\phi(k_t) < k_t$ for some $k_t > 0$. Thus, a steady-state equilibrium exists. However, the steady-state equilibrium need not be unique.

Given the strict monotonicity of $\phi(k_t)$ and given that $\phi(0) > 0$, multiple nontrivial stable steady-state equilibria exist if $k^* > 0$, $\phi(k^*) < k^*$, $\exists k_t > k^*$ such that $\phi(k_t) > k_t$, and $\lim_{k_t \to \infty} \phi'(k_t) = 0$. Noting (19) - (24) and noting that $\phi(k^*) < k^*$ implies that $k^* > 0$, it follows that for some range of parameter values the system is characterized by multiple steady-state equilibria. In particular, for any feasible set of values for the parameters, a, b, α, γ, and z there exists a sufficiently large negative value of ρ such that multiple steady-state equilibria exists.

Furthermore, as can be verified using equation (20) the slope of the dynamical system in a close neighborhood to the right of k^* is greater than that in a close neighborhood to the left of it:

$$\lim_{k_t \to k^*_-} \phi'(k_t) < \lim_{k_t \to k^*_+} \phi'(k_t). \tag{17}$$

Figure 3 describes the dynamical system in the case where there exists a unique steady-state equilibrium. Figure 4 describes the dynamical evolution of the economy in the case where the dynamical system is characterized by multiple stable nontrivial steady-state equilibria; a low output, high fertility steady-state and a high output, low fertility steady-state.

The existence of multiple steady-state equilibria in a one-sector overlapping-generations model is consistent with the neoclassical assumptions concerning preferences and technology (e.g., Oded Galor and Harl E. Ryder, 1989). The multiplicity of equilibria in the current model occurs because of an acceleration in the rate of growth that is associated with women joining the labor force,

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even under a set of parameters that would guarantee uniqueness in the conventional one-sector overlapping-generations model.[15]

3 The Joint Evolution of Fertility and Output

3.1 Constant Technology

The joint evolution of fertility and per-worker output is governed by the dynamical system explored in Section I. The evolution of the per-couple capital stock $\{k_t\}_{t=0}^{\infty}$ determines uniquely, via equation (15), the evolution of the fertility rate $\{n_t\}_{t=0}^{\infty}$ as well as that of per-couple output $\{y_t\}_{t=0}^{\infty}$. The dynamical system may exhibit multiple stable nontrivial steady-state equilibria. Regardless of whether multiple steady states exist, however, the model generates insights into the dynamic behavior of output per worker and fertility. The dynamical path towards a steady-state equilibrium is consistent with the inverse relationship between per-capita output and fertility. Furthermore the model a generates a pattern of rapid fertility decline accompanied by an increase in the growth rate of output that is consistent with what is seen during a demographic transition.

Consider Figure 3, where the economy is characterized by a unique globally stable steady-state equilibrium. Figure 5 shows the time paths of capital, output, and fertility for an economy moving from an initially low capital stock toward the steady state. In the figure, t^* is the time period in which the per couple capital stock surpasses k^*. The pace of the evolution of the per-couple capital stock is not monotonic. The pace declines as the capital stock grows towards k^*, accelerates once k^* is passed, and declines once again as the economy approaches the steady-state equilibrium $\bar{k}$. Thus, as long as women do not participate in the labor force (i.e., $k_t < k^*$), the rate of growth of output declines over time, the level of output remains relatively low and the level of fertility remains relatively high. However, once the per-worker capital stock is sufficiently high so as to support an attractive relative wage to women (i.e., once the level of per-couple capital stock exceeds k^*), the economy experiences an accelerated growth that is accompanied by a declining fertility rate. Ultimately, growth slows down and the economy converges to a high output, low fertility, steady-state equilibrium.

Consider Figure 4 which describes the evolution of an economy that is characterized by multiple steady-state equilibria. In one steady state, fertility is relatively high, output and capital stock per worker are relatively low, and women's wages relative to those of men are low. In the other

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[15]In the model as presented here, the increase in the growth rate of output when women enter the labor force is discontinuous. Such a discontinuity is *not* necessary for the existence of multiple equilibria, however. If there were some heterogeneity across couples in endowments of physical or mental labor, then the relative wage at which women entered the labor force would vary across couples, and the growth rate of output would be a continuously differentiable function of the capital stock.

steady state, fertility is lower, output and capital per worker are higher, and women's relative wages are higher. The two steady states differ in their levels of female labor force participation: women spend all of their time raising children in the lower steady state, while in the higher steady state women work part time and raise children part time. In this case initial conditions determine a country's long-run steady state equilibrium. Countries with a relatively low initial level of capital per worker may converge to a development trap where high fertility induces lower per-capita capital, which in turn induces women, who confront low relative wages, to maintain their high fertility rate and low labor supply.

3.2 Technological Progress

In the absence of technological change, a country trapped in the low-output, high-fertility equilibrium will remain there forever. In this section we show that technological progress will eventually eliminate such a development trap, leading to a period of rapid output growth and to a rapid fertility transition.

Suppose that in every period the economy experiences exogenous technological change:

$$a_t = a_0 \lambda^t; \quad b_t = b_0 \lambda^t; \quad \lambda > 1. \tag{18}$$

The technological change is neutral with respect to the different factors of production (mental labor, physical labor, and capital), that is, it raises all of their marginal products equally.

Modifying the analysis in the previous sections, it follows from (12)-(14) and (19)-(24) that such technological change will shift the function $\phi(k_t)$ upward in a proportional manner. However, the value of k^*, the point at which the $\phi(k_t)$ function kinks upward, will not change. In the case where there is a single steady state equilibrium (Figure 3), the qualitative nature of the dynamical system will not change. However, if multiple steady-state equilibria exist (Figure 4), this possibility will ultimately disappear. In particular, the lower of the two stable steady states will no longer exist for sufficiently productive technology. A country which is at the lower steady state at the point in time when multiple equilibria are no longer possible will eventually experience a fertility transition and a period of rapid output growth (similar to that depicted in Figure 5) as it moves to the unique steady state.

4 U-Shaped Female Labor Force Participation

The model presented above suggests a positive, monotonic relationship between income per capita and women's labor force participation, and thus a negative relation between income and fertility. While such a model may be a good description of the determinants of fertility in countries currently undergoing fertility transitions, or in the US over the last 100 years, it is not universal. Goldin (1990),

examining data for the US for the period since 1790, finds that the labor force participation of married women followed a U-shaped trajectory. Similarly, John D. Durand (1975) and Claudia Goldin (1994) report that the cross-sectional relation between income and female labor force participation is U-shaped in large cross sections of countries. In this section, we discuss two variations on the model that could produce such a relationship.

4.1   Supply Constraints: Low Fertility and High Infant Mortality

Combining the "Chicago" style model presented above for decreasing fertility at high income levels with a "Pennsylvania" style model for increasing fertility at low income levels provides a theory that is consistent with the U-shaped pattern of female labor force participation observed.[16]

At low levels of output, couples are "supply" constrained in the number of live children that they can produce. Low fertility and high infant mortality may mean that a couple produces fewer children than it desires. Thus at low levels of income, increases in income raise the actual number of children to be closer to the desired level, and thereby increase the amount of time that women spend childrearing and decrease women's labor force participation. At high levels of income, however, the supply constraint is no longer binding, and the actual number of children is equal to the desired number.

Suppose that the maximum level of capital at which the supply constraint is binding, $\tilde{k}$, is below k^*. Then the time path of fertility and women's labor force participation will have the shape shown in Figure 6: For capital less than $\tilde{k}$, (that is, $t \leq \tilde{t}$) accumulation of capital will bring actual fertility closer to its desired level. Between $\tilde{k}$ and k^*, (that is, $\tilde{t} \leq t \leq t^*$) actual fertility will be equal to desired fertility, and will be constant. Finally, as capital grows beyond k^*, (that is, $t^* \leq t$) increases in women's relative wages will be sufficient to lower desired fertility. Corresponding to this path of fertility will be the U-shaped pattern of women's labor force participation shown in Figure 6A.

4.2   A Non-Modern Production Sector

A second modification of the basic model that makes it consistent with the U-shaped pattern of female labor force participation is the existence of a second technology for female production which is not fully rival with raising of children. Goldin (1990, p. 46), discussing the reduction of women's labor force participation during the 19th century, writes, "Early industrialization and the expansion of cities rapidly led to the specialization of tasks within the home and within the lives of women. Married women in an era of high fertility could be engaged in family labors only if work were done

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[16]See Randall J. Olsen, 1994, for a thorough discussion of the two schools of thought.

at home, and the progressive separation of home and work made their paid and unpaid labor less feasible."

Suppose that there exists a technology for producing market goods (presumably at home), in which time spend producing can also be used for childrearing. Production at home does not involve capital, and therefore women's marginal product in this sector will not be affected by capital accumulation, while the women's potential wages in the modern sector will rise with capital. As capital accumulates, family income increases via men's wages, while female wages in the home sector do not change, and thus fertility rises (and female labor force participation falls) due to the income effect. Once the non-home sector is sufficiently productive (due either to capital accumulation or technological progress), the effects explored in our basic model take over: capital accumulation raises women's relative wages and thus increase female labor supply.

5   Conclusion

We have presented a general equilibrium model in which there is a positive feedback from low fertility to higher capital and output per worker, higher relative wages for women, and back to low fertility. The model is stripped down to highlight the effect in which we are interested, but even in its simple form it presents fairly rich dynamics. In this last section we discuss extensions of the model to incorporate more realistic descriptions of the determinants of the key variables.

The two key effects in our model are the positive effect of capital accumulation on women's relative wages and the negative effect of women's relative wage on fertility. In each case we have used a simple model of the causal relationship. For the effect of capital accumulation, we have posited a production function in which capital is more complementary to the factors with which women are endowed than it is to the factors with which men are endowed. For the effect of relative wages, we have examined a simple "demand" model of the fertility choice, in which higher relative wages for women raise the price of children by proportionally more than they raise the couple's full income, and thus lead to a reduction in fertility. In both these cases, however, it seems likely that the models we consider are proxies for more general tendencies which go in the same direction as the models we have used. Although difficult to incorporate into a model, these broader effects are important to note.

In attributing changes in women's relative wages over time to an increase in the level of capital, we do not intend to deny the importance of legal and social changes that have accompanied the emancipation of women. At the same time, we would suggest that many of these legal and social changes are in turn, at least partially, consequences of economic growth. Two examples: First, a capital-rich economy may require a more sophisticated mechanism for the enforcement of

property rights and law generally than will arise in an economy with low capital accumulation, and the existence of a law-centered society may make it easier for women to overcome discrimination in the labor market. Second, education — the accumulation of human capital — may inevitably lead to the introduction of ideas that make it more difficult to sustain the oppression of part of a country's population. In either of these cases, the key effect that we have examined in this paper would still function: a higher capital stock would raise women's relative wages.

The determinants of fertility are similarly more complex than those embodied in the model we use. Among the factors that we have abstracted from are issues of child quality vs quantity, the effect of the children's labor income on the household budget, and the effect of contraceptive availability. Once again, however, some of these factors may in themselves depend of women's relative wages. For example, women's ability to influence the couple's use of contraceptives will be higher in families where women bring home a larger share of total income.

Incorporating human capital accumulation into the model is likely to accelerate the demographic transition and amplify the increase in output that results from lower fertility and higher female labor force participation. Women's optimal investments in human capital will depend on their relative wage and on the expected duration of their labor force participation. If women's relative wages are expected to be low, fertility will be high, expected labor force participation will be low, and there will be little incentive for human capital investment.[17] Physical capital accumulation that brings about a direct improvement in women's relative wages in the context of the basic model will cause an additional imporovement in relative wages in an augmented model. Higher relative wages for women will increase their expected time spent working. This will, in turn, raise the optimal amount of human capital which they accumulate, raising the opportunity cost of children, and further lowering fertility.

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[17]The decision about human capital accumulation could be modelled as being taken either by women themselves, or by their parents, out of altruistic or selfish motives.

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