

## **Abstract**

In this paper we propose and quantify a channel by which income inequality may yield a rise in growth through its effects on differential fertility. The conventional wisdom has been that, given the historically negative relationship between income and fertility, increasing inequality will tend to result in relatively more children being born to poorer household, and thus receive less education. However, since 1980 there has been a stark rise in inequality with a simultaneous flattening of the relationship between fertility and income. We reconcile standard models with the empirical reality by arguing that inequality leads to the cost of childcare and home good substitutes being relatively low for high income mothers. This results in an increased ability for high income mothers to marketize home production, and thus increases their fertility. The net result is the subsequent generation having, on average, higher human capital and thus more growth.