

# **Pay-As-You-Go Pension and the Incentives to Self-educate or to Educate Children<sup>1</sup>**

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## **Abstract**

We investigate the relationship between the pay-as-you-go (PAYG) pension scheme and the accumulation of human capital. We introduce the incentives of self-education into an overlapping generations model. The PAYG pension scheme encourages the incentives to educate children, but it discourages the incentives for their self-education. We show that the PAYG pension scheme hampers economic growth if self-education and educating children are complimentary in producing output when the incentives for self-education are considered. The argument implies that while studying the relationship between the pension scheme, education, and economic growth, we must focus on determining the decision maker with regard to education.

**Keyword:** Pay-As-You-Go, pension, education, economic growth

**JEL classification number:** D90, H55, I20, O15

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