Public Debt and Child Allowance in an Endogenous Fertility*

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Abstract

Some developed countries suffer from fewer children. Child allowance is provided to pull up younger people to raise tax revenue in the future. In developed countries, the stock of pubic debt continues increasing because of an increase in social security expenditure. We think generally that the government has two ways to cut off the stock of public debt: one for an increase in tax burden and the other for an increase in tax revenue caused by an increase in younger people. In an endogenous fertility model, this paper examines whether child allowance can decrease the stock of public debt/GDP ratio or not. An child allowance financed by public debt prevents capital accumulation and then income per capita decreases in the short run. However, based on the stock of public debt/GDP ratio before providing child allowance, the effect of child allowance on the stock of public debt/GDP ratio is determined in the steady state.

Keywords: Pension, Public debt, Endogenous fertility, Child allowance

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