

Fertility and Unemployment in Social Security System

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Abstract

This paper discusses the effect of social security system on fertility and unemployment rate in a pay-as-you-go (PAYG) economy with unemployment. It extends the OLG model of Fanti and Gori (2007) and questions the conclusion of that paper that the policy enforcement of child subsidy worsens the decreasing fertility rate and unemployment rate. The findings show that to use child subsidy and pension at the same time can reverse the contemporary status of fertility and unemployment rate. Second, this paper talks about the equilibrium of the two endogenous variables, and extends the conclusion of Fanti and Gori (2011), in which there exists only one equilibrium when child subsidy cannot cover the child-rearing cost. Here 3 equilibria are found in the same situation.

Key words: fertility, unemployment rate, PAYG, social security system

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