

Unemployment, Fiscal Stimulus Policy and Debt Sustainability in an Endogenous Growing Economy

Akira Kamiguchi*

Abstract

This paper investigates how the government fiscal stimulus policy affects public debt sustainability and the unemployment rate. We analyze an economy that has an imperfect labor market and in which the government maintains its budget from tax revenue and public debt. We assume that the government's income transfer is fiscal stimulus policy and show that it reduces the unemployment rate, raises the threshold of the public debt to private capital ratio that is needed to sustain public debt, and increases the economy's growth rate. The arguments presented in this paper show that the income transfer policy may generate an economy that not only is sustainable in terms of public debt but also has a low unemployment rate.

Keywords: Public debt; fiscal policy; debt sustainability

JEL classification: E62, H63, O41

*Admissions Section of the Public Relations Department, Chubu University, Matsumotocho 1200, Kasugai, Aichi 487-8501, Japan, e-mail: akira-k@office.chubu.ac.jp.