

Human Capital, Public Debt, and Economic Growth: A Political Economy Analysis*

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Abstract

This study considers public education policy and its impact on growth and welfare across generations. In particular, the study compares two fiscal perspectives—tax finance and debt finance—and shows that in a competitive equilibrium context, the growth and utility in the debt-finance case could be higher than those in the tax-finance case in the long run. However, the result is reversed when the policy is shaped by politics. Voters choose debt finance, despite its worse performance, in each period because a current generation can pass the cost of debt repayment to future generations.

- Keywords: Economic growth, Human capital, Public debt, Political equilibrium
- JEL Classification: D70, E24, H63,

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