

Is unfunded social security system good or bad for growth? A theoretical analysis of social security system financed by VAT

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Abstract

This study investigates the relationship between unfunded public pensions financed by VAT as discussed in Japan and economic growth in an overlapping generations model with family altruism. Public pension system under VAT finance itself can increase economic growth when bequests are operative. On the other hand, when bequests are inoperative, a growth-maximizing size of public pensions exists in an economy with sufficiently patient agents. Thus, in an economy where bequests are operative, introduction of public pensions financed by VAT may be good for growth. On the other hand, in an economy where bequests are inoperative, large burdens of public pensions financed by VAT may be bad for growth.