

Self-education, Fully Funded Social Security and Economic Growth

Weizhen Hu

hu.weizhen@i.mbox.nagoya-u.ac.jp

Graduate School of Economics, Nagoya University

Furo-cho, Chikusa-ku, Nagoya, 464-8601, Japan

Abstract

This paper investigates the policy effects on economic growth regarding fully funded social security in a small open economy with overlapping generations when individuals face a trade-off between self-education and intergenerational education: individuals make decisions not only on educating their children but also on educating themselves. In our setting, accumulation of human capital for themselves is beneficial only for themselves but not for their descendants, that is, economic growth. In this model, fully funded social security works as a policy tool to promote economic growth, and there could exist an optimal scale of social security which maximizes economic growth rate. We also show that an increase in the interest rate reduces the optimal scale of fully funded social security and improves economic growth.

Keywords: self-education, fully funded social security, human capital