

From the Cradle to the Grave? A Politico-economic Approach on Social Security and Public Education

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April 23, 2009

Abstract

We consider an overlapping generations model with pay-as-you-go social security and public education, where the characteristics of these systems are determined through the political process. Pay-as-you-go social security redistributes wealth from young generations to old generations. In contrast, public education is considered to be an intergenerational transfer mechanism from old generations to young generations. We study the relationship between the two-sided intergenerational transfer mechanism and show that both systems can be sustained as the outcome of a Markov perfect equilibrium, even in the absence of intergenerational altruism.

Keywords : Social security; Public education; Overlapping generations model; Markov perfect equilibrium

JEL classification : H55

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