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THE POLITICAL INTERGENERATIONAL WELFARE STATE*

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Abstract

Using a three-period overlapping generations economy framework, we characterize an intergenerational welfare state with endogenous education and pension under voting. We show that although politically establishing Pay-As-You-Go (PAYG) social security in isolation in a dynamically efficient economy will always reduce the capital investment and therefore the social welfare as expected, in contrast politically implementing education-pension policy package instead can improve both human and physical capital accumulation and social welfare over *laissez faire*. However for this the political influence of the old has to be small thus limiting the size of the PAYG social security program.

Keywords : Education, Pension, Probabilistic Voting

JEL Classification: D91, E6, H3, H52, H55, I21

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