

Review of: "Necessity of budget deficit in a growing economy where people hold money and leave a bequest"

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The paper discusses the need for a budget deficits to achieve full employment, and is analyzed from an interesting perspective. While I agree with much of what this study asserts, I observed several inexplicable points about the analysis. The following are brief comments highlighting three points.

As other referees have pointed out, it is unnatural to assume constant prices in a two-period OLG model. More importantly, I wonder if this assumption plays an important role in this study. The contribution of this paper would be improved if the model could be restructured to assume elastic prices.

When solving the household utility maximization problem, the individual's employment status is not taken into account. When unemployment exists, the problem of maximizing is different for parents with and without jobs. The level of utility of children included in the utility of parents should also differ depending on whether the children are employed or unemployed. Further, it would be unnatural to assume that all children would receive the same amount of bequest regardless of their employment status. Tackling these problems requires the consideration of a maximization problem with very complex heterogeneity, resulting in an infinite number of types of individuals with respect to the amount of their bequest in the steady state. For this reason, it seems difficult to model unemployment in the current setting.

Different assumptions about the capital depletion rate are used together within this model, which seems to have led directly to the proposition. In equation (8), the amount of investment is described as $p_t K_{t+1} (= S_t - M_t)$, whereas the first equation in p. 6 states that the investment equals to $p_t(K_{t+1} - K_t)$. The former assumes complete depletion of capital, while the latter assumes a depletion rate (δ) of zero. If δ is unified and calculated as either 1 or 0, equation (12) changes from the present formula.