Comments and Discussion

Toshiki Tamai*

This paper presents development of an overlapping generations model with human capital accumulation and foreign aid. In the standard literature related to economic development, foreign aid fosters economic growth in developing countries. In contrast, this paper shows that foreign aid with threshold properties brings about multiple equilibria or cyclical growth, implying a poverty trap. This result is important and interesting because such a result might provide a theoretical explanation of a poverty trap. However, the authors do not explain the evidence to justify that theoretical result and their inference.

Some questions related to the propriety of the theoretical settings are in order. First, I would like to point out the funding sources of public education. Keen and Simone (2004) report that indirect taxes account for a large part of tax revenues in developing countries. They also report that personal income taxes have a small weight among direct taxes (the main revenue source of direct taxes is corporate taxes). As described in this paper, the income tax is assumed to be a source of public education funding, but this is not realistic. Furthermore, I cannot understand why the government does not tax child labor. Does the government adopt a tax deduction for income from child labor?

Second, it is a problem that the government's purpose is ambiguous. Normally, the government has a purpose for maximizing national income. Then, the government in a developing country might not receive foreign aid, especially in the case presented in Figure 1. To justify the theoretical results derived from this paper, it is necessary to formulate an optimal choice of policy variables under appropriate purposes or explain the reason why the government continues to receive foreign aid.

Keen, M. and A. Simone (2004), Tax Policy in Developing Countries: Some Lessons from the 1990s and Some Challenges Ahead, in Gupta, Clements and Inchauste (eds.), Helping Countries Develop: The Role of Fiscal Policy, Washington D.C.: International Monetary Fund, pp. 302-352.

*Associate Professor, Faculty of Economics, Kinki University