ASSESMENT OF THE PAPER:

Margarita Katsimi and Thomas Moutos, "A Note on Human Capital and the Feldstein-Horioka Puzzle", Economics Discussion Papers, 2007-30, July 12, 2007-09-09

I think this is a nice piece of work trying to test the validity of Feldstein and Horioka findings of limited international capital mobility. Its main innovation is that it considers human capital, a part from physical capital, in the evaluation of capital investment. The findings of the paper only partially reinforce FH results of a high correlation between capital investment (including human capital investment) and savings in the OECD countries. The correlation coefficient between both variables decreases in the period 1997-2002 contemporary to the establishment of the Euro and the liberalization of financial capital markets in Europe. Therefore the results of this econometric analysis show that higher economic integration also implies a better fit of the perfect competition model and an increase of the intensity of international capital movements.

My opinion on the paper as a whole is that it is formally impeccable and raises new questions on the role of economic integration and the suppression of transaction barriers and costs on the suitability of the perfect completion model. I only have minor remarks regarding the future research agenda:

All in all, including human capital also means considering the labor market. The inclusion of this last market has further consequences for the formalization of the perfect competition model. The situation exposed by the authors of higher marginal productivity of human capital with respect the international interest rate not only has implications for the international capital flows but also for international migration movements. If country a makes a lot of investments in human capital and capital investment is superior to the value of domestic savings, a second set of implications should be that marginal productivity of labor and real wages in A are higher than the international standards causing an immigration inflow movement. We should also find the opposite effect. Poor countries that only spend a share of their savings in productive investments experience an outflow migration movement of skilled labor, because domestic wages are lower than the international standard.

I'm conscious that this last suggestion changes the overall formalization schema of the paper. In the paper the authors consider human capital as a financial asset not only because this is consistent with the analysis of capital, but also because of the formal need to aggregate human capital and physical capital. In fact considering human capital as a labor asset with implications for the labor market may illuminate questions for analysis in other papers.