Editor's Report on
"A Note on Human Capital and the Feldstein Horioka Puzzle"
By Margarita Katsimi and Thomas Moutos.
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This paper addresses the Feldstein Horioka puzzle. The original Feldstein-Horioka result shows that there is a high correlation in a cross-section between investment and savings, a result that is seemingly at odds with high capital mobility. This point has been extensively studied. There are two types of criticisms of this original result; one type concerning the interpretation of the result and a second concerning how the result fares using different time periods or alternative samples. There is a growing body of evidence that the simple correlation, as measured by a regression coefficient in a regression of investment on savings, is decreasing as samples include more recent data.

This paper attempts to extend the literature by including human capital, both as a form of investment and as a type of savings. The key result is that the coefficient without the use of human capital is 0.277 (s.e. = 0.109) while with the inclusion of the indicators of human capital, it is virtually unchanged at 0.261 (s.e. 0.119). This may be because, as noted by a referee, there is a high correlation between (*Ih/Y*), which augments investment, and (*Ihpr/Y*), which augments savings. [(*Ih/Y*) represents the total expenditure for all education minus government expenditure for education institutions designated for capital as a proportion of GDP, while (*Ihpr/Y*) represents private expenditure for education as a proportion of GDP.]

The main finding, then, is that there is a close similarity of the result inclusive of human capital, and the more standard result that does not include human capital. Given this similarity, the fact that it may arise due to a data problem (the indicators are only proxies, and likely poor ones, for the investment and savings related to human capital formation and the savings for the promotion of human capital formation), and that the more central question of the decline in the Feldstein-Horioka coefficient over time, I recommend that this paper not be published in *Economics: the open-access, open-assessment e-journal.*

Michael Klein
Associate Editor