

Reply to Professor David Dapice's Comment

Paper titled "Labour market returns to higher education in Vietnam"

1. "The analysis is good but the data are suspect, though the best available. The total consumption recorded in the Survey amounted to 65% of GDP-estimated private consumption, suggesting major omissions in the Survey. Indeed, some economists suggest that the GDP data themselves understate true activity by 10-20%, and if this were true the shortfall would be closer to half of all consumption rather than a third. Unless the understatement were proportional, the income findings may not be a reliable guide to understanding the true productivity of education. (Consumption is normally viewed as a more reliable variable than income in these surveys and is used here as a proxy for income.)". This comment on coverage of GDP in VHLSS is not correct (see Table below), for example in 2008, the ratio of survey per-capita consumption to NAS per-capita household consumption was 80.6%, not 65% as David claims. It is true that the VHLSS expenditure numbers do not capture all household consumption reported in the Vietnam's National Accounts. This is a common finding for most household surveys and has as much to do with definitions and how calculations are done (see Deaton, 2000) as 'quality' of household survey estimates.

Percentage of National Accounts' Private Consumption Captured in Surveys

Year	Surveys (VHLSS)	National accounts	Ratio
1998	2,868.6	3,392	0.845
2002	3,528.0	4,385	0.804
2004	4,753.1	5,716	0.831
2006	6,071.9	7,408	0.819
2008	9,475.8	11,759	0.806

Source: Valerie Kozel (World Bank, Hanoi); Note: National Accounts data are from GSO's most recent estimates (2010); Unit: 1,000VND

2. "...the income findings may not be a reliable guide to understanding the true productivity of education. (Consumption is normally viewed as a more reliable variable than income in these surveys and is used here as a proxy for income)." Household consumption cannot be separated for each household member and for wage-paid members within household. We are unable to know exactly how much the wage-paid members consumed in household consumption since survey data often are unavailable to support this direction of research. Therefore,

estimating return to schooling can only be done with wage-paid individual's income.

Moreover, as per discussed in the paper and the reviewer's comment, more higher educated graduates worked in state sector when the sector only provides about 11% of total employment, receives more than 40% of total investment capital but sale growth is low. These imply that the state sector labour productivity is low but higher wages. In addition, the state sector may be less flexible than non-state sector, thus, the estimates may be downward biased. When large data sets are available that enable investigating returns to education for each economic sector, separate regression should be run for each sector in order to provide more precise estimates of the return.

Another concern from the reviewer is that the return does not well reflect the labour productivity. Yet Vietnam economy is still rather heavily distorted by government policies due to the "socialism-orientation" strategy; state sector does contribute a significant in GDP and capital investment. The labour market seems to be in the same circumstance. Thus, updated research in this research direction is necessary when the economy has more time in the market mechanism. Moreover, the comment opens another direction for future research on investigating the relationship between return to education, wage rates and labour productivity.