Discussion of "Human Capital Acquisition and Occupational Choice: Implications for Growth and Inequality" by Mestieri, Schauer & Townsend

Francisco Buera

Chicago Fed

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General Comments

- Ambitious, rich, and challenging paper

- Important question:

  - Role of credit market in determining human capital, entrepreneurial investments, and economic development?

- Nice combination of theory and data

Roadmap

- Literature Review: Macro Development

- Are there interesting interactions between human capital acquisition, occupational choices & credit frictions?

- What is the interesting cross-country counterfactual? Credit markets vs. education policies?

- Important difference between human capital and entrepreneurial investments: can't self-finance human capital accumulation

- Current (preliminary) draft is too ambitious/dispersed, better focus on conveying fewer, but clearer messages

Literature Review: Macro Development

- Theoretical Literature: Many possibilities ... Multiple equilibrium, Aggregate poverty traps,...

  - Entrepreneurship: Banerjee & Newman (1993),...

  - Education: Becker, Murphy & Tamura (1990), Galor & Zeira (1993),...

- Quantitative Macro Literature: Evaluate plausibility of these possibilities

  - Entrepreneurship: Townsend & Gine (2004), Buera, Kaboski & Shin (2011), Buera & Shin (2013), Midrigan & Xu (2014)

  - Education: Preliminary work by Castro & Sevcik (2015), Mestieri, Schauer & Townsend (2015), Samaniego & Sun (2015),

Interactions between human capital acquisition, occupational choices & credit frictions?

- In standard models of intergenerational transmission of human capital, e.g., Becker and Tomes (1994),

    - If human capital investments are constrained, no monetary bequests

    - Human capital investment on children are (weakly) increasing function of parental income

- When incorporating occupation choices subject to credit frictions

    - Can have monetary and human capital bequests, if off-springs are constrained entreprenuers

    - As parental income rises, schooling might declines when off-spring becomes an entrepreneur, depending on $\zeta_w, \zeta_e/(1 - \alpha - \gamma)$

Interactions between human capital acquisition, occupational choices & credit frictions? (cont'd)

- If the are differences in the skill intensity of subsistence and modern technologies ...

- ... constraints to entrepreneurial investment affects the returns to human capital accumulation

- In the current version of the paper this effect is shut down, but this is an interesting dimension that could be explore

What is the right cross-country counterfactual?

- Entrepreneurial investment: Credit markets

- Human capital investment?

    - for elementary/high school margins, compulsory schooling, redistribution policies?

    - for the college margin, credit market might be more relevant

Can't Self-finance Human Capital Investments

- Important insight from macro development literature: self-finance important substitute for credit markets, specially for small scale sectors/ technologies w/o large setup investments, e.g., Buera, Kaboski & Shin (2011), Midrigan & Xu (2014)

- Human capital require large front-loaded time investments, e.g., formal schooling, early childhood (Heckman, Humphries & Mader, 2011; Elango, Garcia, Heckman & Hojman, 2015)

- For these investment self-finance is not an option

- To highlight this point, the paper should consider simulations with a shorter time period (currently four periods lived generations, 16 years)

Final Thoughts/Summary

- Challenging numerical problem, many state variables, non-convexities

- A successful paper should convince the reader that it is worthwhile combining human capital acquisition, occupational choices and credit frictions

    - new insights are obtained, new data can be explained

    - the effects of credit frictions in different margins can be contrasted

- I would leave the analysis of transition dynamics for another paper. I am a big fun studies of transitional dynamics, but there is already a lot that needs to be digested...