

Parental Choice of Human Capital Investment

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Abstract

In this paper we present a model in which parents make schooling decisions for their children. We compare two educational regimes: public and private education. In the private education regime all human capital investment decisions are made by individuals. Under public education the government uses income tax revenue to finance one input to schooling. We find that persistent growth is impossible in the private education regime even under constant returns to scale in the augmentable factors. In the public education regime persistent growth is possible but public policies may lead to poverty traps.