Unit 2: Can we think of health as capital ?

1. The Grossman model and the concept of health capital

Hi, I'm Audrey Laporte Professor of Economics at the University of Toronto and Director of the Canadian Center for Health Economics. I'm going to talk to you about the concept of health capital. The way economists think about health is well defined and well laid out in the seminal paper by Michael Grossman entitled On the Concept of Health Capital and the Demand for Health. In that model, health is characterized as a stock. There's a distinction made between how an individual might feel today and their underlying stock of health. I might be a very healthy person that has the flu on a particular day. Once we think of health in terms of a stock we can also recognize that it behaves as any other capital good in the sense that it will depreciate. This recognizes the reality of the aging process. Individuals can undertake what we call investment in health activities to slow or stave off this inevitable decline in our health. There are a variety of ways that individuals can do that. They can modify their diet, exercise, they can use medical services. Individuals want to invest in their health because health yields different types of returns. There is the direct or consumption return: I feel better when I'm healthy. Taking a vacation when I'm healthy is expected to yield higher utility or satisfaction than taking the same vacation when I'm in poor health. But health is also recognized to yield an investment return. When I'm healthier I can work more I can earn more income, and that income can be used to purchase consumption goods and services that also give the individual utility or satisfaction. It turns out that thinking about health as a stock or capital good has very important implications and opens an array of possibilities. Most importantly, it forces us to think intertemporally. Actions we take today can influence our health today but are also likely to impact our future health status. When we draw a distinction between today and some future tomorrow, we also have to consider the fact that different people may have different attitudes with respect to that tomorrow. They may have different weights that they attach to that future tomorrow. If a person is very concerned about their future well-being we would expect that they would be more likely to invest in health activities that yield future returns in terms of enhanced health and well-being. But when we think intertemporally it also raises more complex questions. What about the timing of health investment? Might we expect different returns from the same health investment that is made early in life as compared to late in life, so in childhood, as compared to old age? We also have to give consideration to the implications of deprivation early in life in the form of poverty or poor health status, as compared to low income and poor health status later in life. But the model in this framework also allows us to think about unanticipated events, shocks to health, and whether we would expect differential effects if these occur early or late in life. In short, you can see why the Grossman model is a work horse in health economics. It provides a robust framework within which to consider a broad array of questions related to health service utilization and the determinants of health over the life course. Thank you.