

Health and Human Capital

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Paper Abstract: This study examines the impact of morbidity on human capital stocks (HCS) with an application to the UK in 2014. It incorporates health status into the standard Jorgenson-Fraumeni lifetime income measure of human capital stocks through its effect on absenteeism and presenteeism (lost productivity) by modelling the impact of health on earnings and retirement behaviour. The research strategy takes account of individuals' and spouses' health as well as caring responsibilities due to adverse health of third parties. Moreover, it employs an approach, standard in the literature, of estimating individual health indices by regressing self-assessed health status on a broad range of health conditions, limitations and socio-economic characteristics in order to address reporting and errors-in-variable bias.

Results show that approximately 2% of the total employed HCS in the UK in 2014 was contributed by individuals in poor health, which is partly due to health and partly due to the fact that poor health is associated with lower qualification categories. Although this figure reflects the small share of individuals in poor health, the significance of the pure health effect is shown in the average values: average employed HCS per capita for a man is £133,089 and £371,600 if he is in poor and in good health, respectively. Female average employed HCS p.c. is £92,487 if she is in poor and £248,094 if she is in good health.