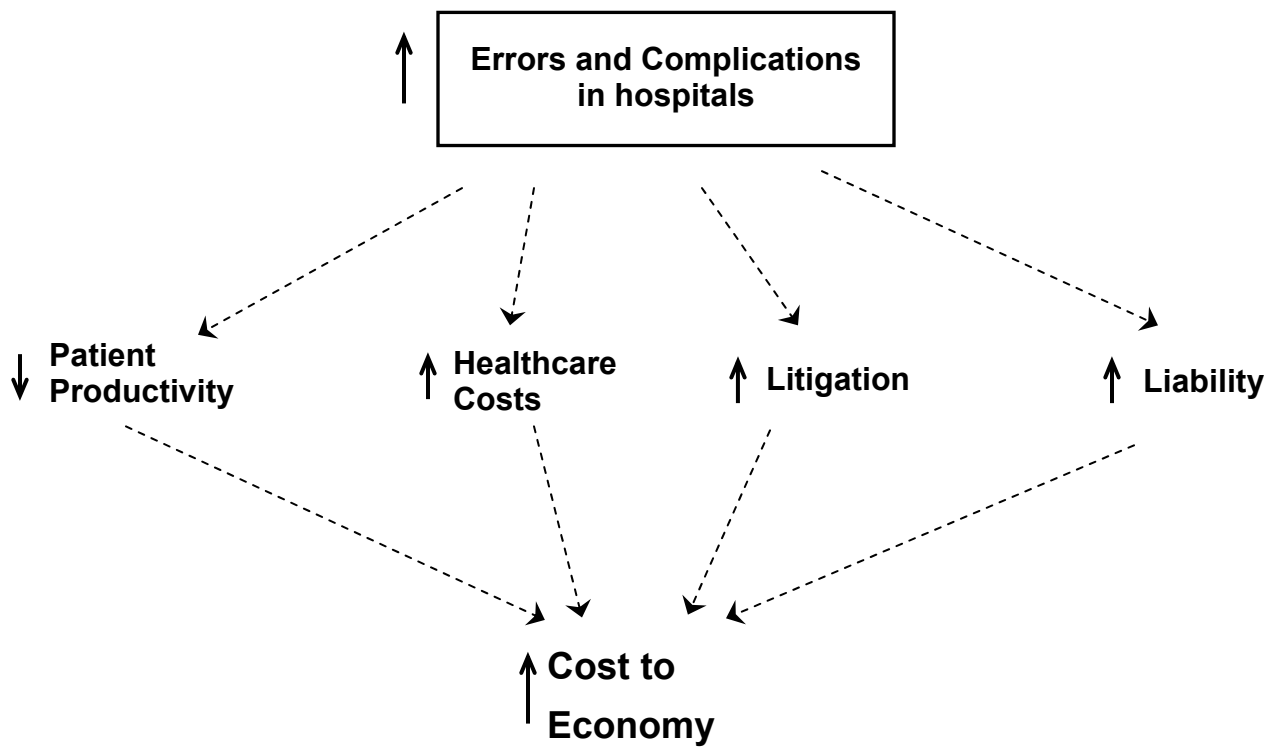


The Economic Impact of Lack of Patient Safety



Center for Accelerating Medical Solutions

<http://www.fastercures.org/sec/economics>

In 1999, the federal government spent almost \$19 billion on medical research, up from \$13 billion in 1995. Private industry invested almost \$35 billion and non-profits in America invested another \$3 billion. These figures have almost certainly gone up in the interim. What reason, then, is there to believe that we are investing too little in research?

One crude measure is the proportion of National Institutes of Health-approved projects that are actually funded. Dr. Coffey of Johns Hopkins points out that this number has slipped from 40 percent in the early 1970s to just 25 percent today.

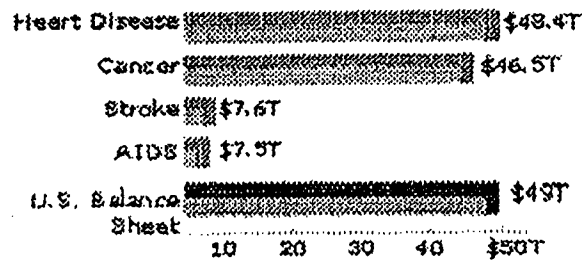
Economists view the problem from another perspective, estimating the potential return on more medical research in terms of the value of lives saved. To get from here to there, one must first assign a value to life—a seemingly intractable problem. But economists argue that people implicitly place a finite value on their own lives every day by making choices between buying safety devices and other goods or services—say, by deciding whether to buy carbon monoxide detectors for their houses.

Kip Viscusi, an economist at Harvard University, notes that this indirect method of valuing life, using everything from wage premiums in dangerous occupations to decisions on whether to speed on the highway, generates a surprisingly narrow range of estimates. On average, Americans seem to value their lives between \$3 million and \$7 million.

A number of well-respected economists—notably Kevin Murphy and Robert Topel of the University of Chicago and the Milken Institute—have thus been able to compare the value of life-extending research to the cost. Professors Murphy and Topel estimate that advances in medicine added \$2.8 trillion per year to GDP—that's right, trillion—between 1970 and 1990. (See figure below for the value of curing selected diseases. The last column, "U.S. Balance Sheet," refers to all personal financial assets.)

Since, 250,000 people Die every year in Hospitals, due to ERRORS, that translates into 750 Billion to 1.75 Trillion Dollars Wiped out of the U.S. Economy every year. In 2002, Health Care Costs were 1.6 Trillion.

Economic Value of Eliminating Deaths



Kevin M. Murphy and Robert H. Topel/University of Chicago

Hence, the likely returns on investment in medical knowledge are so large that vast increases in research budgets would be justified. Indeed, the justifiable increases would probably be so large that the current battles over the division of the research pie—AIDS vs. cancer, etc.—would be moot.

Convincing government, insurance companies or universities to pump more money into the system—if, in fact, that is the answer—will not be easy, however. Researchers chafe at the bean-counter mentality in the managed care industry that looks with deep suspicion at every technological advance because it may add to treatment costs.

In fact, the jury is still out on whether such advances will increase the overall cost of health care or decrease it. Drugs, which now comprise only one-tenth of the American medical bill, can often substitute for more expensive surgery or for the long-term care of the chronically ill—and may thereby generate net savings. And as Robert Fogel, the Nobel Prize-winning economist, points out, even sharp increases in overall health care costs may simply be evidence of an efficient reallocation of resources in a rich, aging society.

"Public policy should not be aimed at suppressing the demand for health care," he insists. "Expenditures on health care are driven by demand, which is spurred by income and by advances in biotechnology that make health interventions increasingly more effective."

His comments parallel those of economists David Cutler and Mark McClellan (now FDA commissioner), who wrote in 2001: "The benefits from just lower infant mortality and better treatment of heart attacks have been sufficiently great that they alone are about equal to the entire cost increase for medical care over time."



BRIEFLY

UNITED STATES

International Herald Tribune
Friday, January 9, 2004

5

■ WASHINGTON

Health care spending rose 9.3% in 2002

U.S. health care spending rose to \$1.6 trillion in 2002, fueled by higher hospital and prescription drug costs, according to an annual government survey released on Thursday.

Americans' health care spending is rising more than twice as fast as the economy overall, according to the report by the Centers for Medicare and Medicaid Services. And consumers, businesses and the government can ill afford it, the agency said.

Health care spending shot up 9.3 percent in 2002, more than double the growth rate of the gross domestic product.

But as the effects of the recession of past years kick in and employers cut the amount of workers' health care bills they are willing to pay, this growth will start to flag, the agency predicted.

(Reuters)