

Save Some of the Surplus for Medical Research

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In the current debate over what to do with the expected federal surplus, both Republicans and Democrats have missed the opportunity to increase the amounts spent on basic medical research. Studies show that there are huge benefits from even modest progress in fighting the major diseases, since people place a high value on longer and healthier lives.

Two economists at the University of Chicago, Kevin M. Murphy and Robert H. Topel, recently estimated the value to people in the U.S. of the steep fall in death rates from heart disease and other ailments from 1970 to 1990. Their calculations show that the reduction in the chances of dying from heart disease alone produced benefits many times larger than total spending on medical research over that period.

A further cut in death and illness from heart attacks, cancer, and other afflictions would produce additional benefits. The authors conclude that a 1% drop in the death rates at all ages from either cancer or heart disease would be worth almost half a trillion dollars to Americans. That is, they would be willing to pay this amount to achieve such an improvement in the length and quality of their lives.

PALTRY SUBSIDY. The authors' estimates of the gains are so large in part because most young men and women would be willing to pay a lot even for small reductions in their chances of dying from disease during their middle or old age. The aggregate benefits from lower death rates would be huge, even if the typical person is willing to pay much less than the figures assumed in the authors' calculations. The reason is that many people in the U.S. would gain either immediately or when they are older and more vulnerable to cancer, heart attacks, strokes, and so forth. Moreover, the benefits from lower death rates to men and women in Europe, Asia, and elsewhere are likely to exceed the gains to the small fraction of the world's population that lives in America.

Although the U.S. finances much of the world's spending on medical research, the federal government allocates only about \$50 a person to this research, compared with spending on all federal programs of about \$5,000 for each citizen. The amount of additional spending on medical research that is warranted obviously depends on the difficulty of producing advances in medical knowledge. But the potential benefits are so big, especially compared with the sums spent on basic medical research, that much higher expenditures on research would be justified even if they only yield small declines in death rates.

Research on AIDS has been much more generously funded by the federal government during the past decade than has research on breast and prostate cancer and other diseases that kill many more people. The sizable payoff from the liberal funding of AIDS research seen in the remarkable progress in cutting deaths from AIDS suggests that greater resources devoted to other diseases will lead to important discoveries.

PIGGYBACK. Pharmaceutical companies have partly taken up the slack left by limited government funding of medical research: They now spend at least as much on applied research as the federal government does on basic research. But private companies concentrate their spending on vaccines, drugs, and other products that can be patented and so can provide protected markets that yield profits to pay for their research. By contrast, the fruits of basic research, such as understanding the causes of cancer, are not patentable and become freely available to all doctors and private companies.

Indeed, higher federal funding of basic research on a particular disease usually increases rather than decreases spending by pharmaceutical companies on this disease because they piggyback on advances in basic knowledge. This is why economists agree that governments should support basic but not applied research. Private companies invest in promising applied research but are reluctant to invest in acquiring knowledge that would be available to others.

Unfortunately, generous funding for entitlements, farm and urban subsidies, and other programs tend to crowd out desirable forms of government spending. Inadequate support of basic medical research is one of the more disturbing unintended consequences of a bloated government that caters to powerful interest groups.

A doubling of annual government funding of medical research would have only a small effect on the overall federal budget. Yet greatly expanded basic research is likely to have an enormous payoff by reducing deaths from the major scourges.