

## Letter from America: Is Economics Good for Health? Or Health for Economics?

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Historians of science know that the development of academic subjects must be understood within the social and economic environment of which they are a part. Economists, by contrast, usually (and perhaps wisely) ignore such considerations, preferring to think of themselves as the unshaped shapers of the modern world. And indeed, economists surely have unrivaled influence on policy. But there is one influence on American economics that is hard not to notice, even for those unused to such reflection, and that is the increasing interrelations between health and economics. Some of this is familiar and long established; the US spends perhaps 15 percent of national income on health, and health economists have always helped think about the financial aspects of the sector. They have made distinguished contributions to insurance and to thinking about the industrial organization of medical services. But a new focus has recently emerged, driven by one of the most fundamental forces in current American life, the aging of the baby boom generation. As the vanguard of the boomers comes within sight of retirement, financial dependency, and ever closer encounters with chronic disease, the political and economic pressure for action is irresistible. The twin terrors are lack of wealth and lack of health or, worst of all, the lack of both. (The more obvious terms, poverty and disease, are surely too declass  in this context.) Money and political pressure have worked before, so why not here? Most Americans find it both implausible and unacceptable that money can't buy immortality and, in the absence of religion, there isn't much else to try.

The command and control center for the war on aging and disease is lodged at the National Institutes of Health, a sprawling university-like campus in Bethesda outside of Washington, a few miles to the north of the Pentagon. The Institutes, many named after body parts (the National Eye Institute, the National Heart Lung and Blood Institute) or diseases (the National Institute of Allergy and Infectious Diseases, the National Institute of Neurological Disorders and Stroke) spent \$15.6 billion on research in 1999. If this is modest compared with the Pentagon, (\$275 billion), a better comparison is the National Science Foundation, whose budget of around \$3 billion provides for the other sciences, including big (though ever smaller) physics, as well as economics. In the NIH press release on their proposed appropriation in the President's budget, the promised land is on prominent display. Noting that the 2000 budget was expected to increase by 14 percent, and that the President was requesting a further 5.6 percent for 2001—which given recent behavior Congress will probably increase—the press release modestly notes that life expectancy in 20th century America increased by 30 years, “an accomplishment realized, in part, by research-based improvements in health.” While the largest budgets—for the Institutes for Cancer (\$3.3 billion) and Heart, Lung, and Blood (\$2.0 billion)—match the chronic conditions that most threaten the lives of the baby boomers, there is also increasing recognition of a role for social and behavioral research. Such programs in the National Institute on Aging and the National Institute of Child Health and Development have been particularly open to economics, and the funds available dwarf those of the NSF, the traditional source of research funding for American economists whose budget for social and economic science in 1999 was a mere \$60 million.

Economists have continued to work on their traditional areas of health expertise but, not surprisingly in view of the funds involved, there have been some real changes of emphasis. The extra 30 years of life span are most welcome, but life is expensive, and boomers are almost as concerned with their wealth as with their health. In response, the NIA has funded a great deal of the work by economists on social security, on Medicare, on pensions, and on the adequacy of funding for consumption and medical care during retirement. NIH resources have also encouraged economists to seek new intellectual partnerships, particularly with doctors, psychologists, and biologists, and their joint efforts will shape economics as a discipline. Even the reverse is beginning to be true; it is no longer unusual for economists to be asked to team up with doctors who fear that their research will not be funded without the presence of economists and their insights about behavior, for example about smoking or alcohol consumption. These partnerships involve real mutual learning and are more evenly balanced than the much-noted imperialist excursions of economics into other social sciences. Economics may be the 600 pound gorilla in the social sciences jungle, but it's still a barely visible creature in the Bethesda zoo.

The NIA has spent large sums of money on the infrastructure for research on "health and wealth." It has supported health modules for familiar surveys such as the Panel Study of Income Dynamics, and spent much more on new, national panels such as the Health and Retirement Survey which collects data on economics and health from middle age to death. Indeed the surveys reach even beyond death, ending with an "exit" interview with the decedent's kin, as a result of which we now know that, in spite of the high cost of medical care in the US, most Americans manage to die without incurring out-of-pocket expenditures. The Health and Retirement Survey currently costs about \$10 million a year.

And perhaps economists have as good a claim to the secrets of eternal life as do molecular biologists, geneticists, or biochemists. Following a long and often distinguished tradition in Britain, attention in the US has recently turned to the effects of income on health and longevity. Individuals surveyed around 1980 whose family income was less than \$5,000 could expect to live about 25 percent fewer years than those whose family income was greater than \$50,000, which for a 25 year old amounted to a difference of about a decade. Surprisingly little of this difference can be attributed to unhealthy lifestyles, such as smoking or lack of exercise, or to the effects of health on income, and hardly any at all to differential access to medical care. When parsed into the separate effects of income and education, the credit is about equally shared but, while it's a good idea to quit smoking, you'd probably improve your health even more by finding a better-paying job.

It will probably be a while before the dismal science absorbs the life sciences, before the sick come to economists instead of to doctors, and before TV dramas move from the emergency room to the seminar room. In the end, economics may add nothing to the life span of a typical boomer. But the well-funded and powerfully supported desire of boomers for immortality will certainly change economics.

*Angus Deaton's Letter from America appears every six months in the Royal Economic Society's Newsletter. For more information, visit <http://www.res.org.uk/society/newsletters.asp>.*

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