

Why regulating opioid prescriptions can protect the US economy

Written by

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With opioid addiction reaching crisis point in the US, Dr Cláudia Custódio considers the impact on the economy, and what the link between opioid use and house prices can tell us

While the drug phenomenon in Europe typically consists of young people experimenting with drugs, the opioid crisis in the US is very different: people have become addicted through an initial prescription from their doctor.

Our research shows that unregulated opioid prescriptions can lead to excessive consumption of the drug, and the impact reaches beyond public health. By estimating the effect of opioid abuse on real estate prices, we have explored how legislation limiting opioid prescriptions can make a positive difference.

A dramatic increase in opioid usage

In 2017, Americans were for the first time [more likely to die from an accidental opioid overdose](#) than a car accident, with the Centers for Disease Control & Prevention (CDC) reporting that [nearly 450,000 people died](#) from an overdose involving opioids between 1999 and 2018. While this statistic includes both illicit and prescription opioids, prescription misuse is often a gateway to drugs such as heroin,

and can result in addiction.

The use of prescription opioids in the US began in the 1980s, when a more aggressive approach to pain treatment started. Following the Food & Drug Administration's approval of OxyContin, the American Academy of Pain Medicine and the American Pain Society advocated for greater use of opioids, arguing that there was minimal long-term risk of addiction.

However, by the early 2000s, concerns were rising about the possible over-use of opioid prescriptions for chronic pain conditions. In 2014, the Agency for Healthcare Research & Quality concluded that there was limited evidence-based medicine to support opioids' use in chronic non-terminal pain, and, in 2016, the CDC issued new policy recommendations for opioid prescriptions, including maximising non-opioid treatment.

What excessive opioid use means for the economy

We can measure the effect of excessive opioid prescription on the economy through house prices, which act as an indicator of the local economic situation and outlook. We found that during a five-year period, for a one standard deviation increase in prescriptions – which is equivalent to 41 prescriptions per 100 people – there was [a 1.36 percentage points decrease in home value](#).

For many households, their houses are their most valuable asset. By helping homeowners to secure credit, housing collateral has been proven to spur entrepreneurship, business starts and job creation. However, falling home equity can have a negative impact on the economy. An increased and prolonged usage of opioids may result in a reduction in labour productivity and, therefore, household income. People who are addicted to opioids might lose their jobs, leading to missed mortgage payments – resulting in an increase in foreclosure activity – and not taking care of their properties, and this is reflected in house prices.

With families finding themselves unable to pay for their homes, we can observe an increase in the number of delinquent mortgages and vacant homes, pushing house prices down. The use of opioids also corresponds with other statistics such as rising homelessness and crime rates, making neighbourhoods less attractive to live in, and again causing house prices to decrease.

How legislation around opioid prescriptions can make a positive difference

In October 2017, the US government declared opioids a public health emergency. Starting with Massachusetts in 2016, states began passing laws and regulations limiting the duration or total dosage of opioid prescriptions – particularly those being prescribed for the first time – seeking to address addiction and long-term opioid usage.

The Massachusetts law imposed a seven-day limit on first-time opioid prescriptions, with exemptions for cancer pain, chronic pain, and for palliative care. By 2018, several states had followed suit: eight more states in 2016, 18 states in 2017, and another five in 2018.

We compared the change in house prices and delinquent mortgages within the states that implemented legislation and the states that didn't, and found that [real estate prices \(delinquent mortgages\) responded positively \(negatively\) to the new laws](#). For states that limited opioid prescriptions, prices went up more than in states which didn't; we estimate a positive increase of 0.54 and 0.91 percentage points respectively in the first and second year following the passing of these laws. Similarly, delinquent mortgages decreased by about 6.17 and 14.21 percentage points respectively in the same timeframe.

Protecting public health and the economy

Regulation and legislation are important to limit excessive prescription of opioids. This type of regulation has a direct impact on public health, as it seems to be effective in reducing consumption of these substances. Moreover, these policies can also have an important knock-on effect on local economies, as measured by the positive impact on real estate prices.

This article draws on findings from ["Opioid Crisis and Real Estate Prices"](#) by Cláudia Custódio (Imperial London; Centre for Economic Policy Research; European Corporate Governance Institute), Dragana Cvijanović (Cornell University), and Moritz Wiedemann (Imperial London).

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Cláudia Custódio is Professor of Finance at Imperial Business School and a research associate for the Centre for Economic Policy Research, the European Corporate Governance Institute, and the Financial Markets Group at the London School of Economics.

Prior to joining Imperial London, she worked at Nova School of Business & Economics in Lisbon and Arizona State University. Professor Custódio's research interests are mainly in corporate finance, including corporate diversification, mergers and acquisitions, capital structure and risk management.

Read [Cláudia's Imperial Profile](#) for more information and publications.

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