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Back by Easter? Marginal Benefits and Marginal Costs

Yesterday (March 23), President Trump announced that we shouldn't seek a cure for the COVID-19 virus that is worse than the disease. Today, he hoped that we could lift major "in place" regulations by Easter Sunday, April 12, less than three weeks from today. What can economic analyses offer?

A set of safety analogies will help. Everyone agrees that driving too fast on city streets can be dangerous, leading to loss of life and loss of property. Yet no one seriously argues that we should have speed bumps every hundred yards on busy thoroughfares. No one seriously argues that we should have a stop sign at every intersection. No one seriously argues that we should have a national 15 MPH speed limit, even though it could save 30,000+ lives per year.

Why? Because the incremental (or marginal) benefit of safety is swamped by the much higher incremental (or marginal) cost of lost time, and ruined shock absorbers. Individuals monitor marginal benefits and marginal costs for a host of decisions, and public officials pass laws and implement policies based on marginal benefits and marginal costs.

What are the benefits of "in place" COVID-19 regulations?

- Reduced numbers of COVID-19 illnesses, with their attendant costs in terms of illness, absenteeism, and lost productivity, in the trillions of dollars
- Reduced numbers of COVID-19 deaths, again with costs in the trillions. Economists currently put the "value of a statistical life" at about \$10 million (Kniesner and Viscusi, 2019) dollars, so saving 100 thousand lives would save one trillion dollars in "lost people". This number can be scaled up for larger numbers of saved lives.

What are the costs of "in place" regulations?

- Lost output from shuttered factories, offices, governmental agencies, and amusement facilities, valued in the trillions.
- Lost interactions with business partners, customers, families, and loved ones, again valued in the trillions.

Both benefits and costs must be evaluated over time. If we act swiftly, will we prevent the spread? If we send people back early, will the virus flare up again? There are sophisticated models available to guess these impacts. Yes, guess!

The devil, so to speak, is in the details. Which trillions are greater than other trillions? No serious public servant advocates putting in zero restrictions. Both Republican and Democratic governors have imposed "in place" regulations.

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No serious public servant in the US has (yet) advocated a total 3-week lock down as is currently being implemented in India, a country of 1.3 billion people.

Policy-makers often conduct sensitivity analyses based on plausible parameter estimates of disease spread, and disease impact. Decisions must be made on the basis of careful analysis ... not a hunch that "it's going to get better soon." COVID-19 doesn't care that "America is a great country" any more than it has cared about China, Italy, Iran, or Spain being great countries. Sober analyses of good conceptual models must guide our policies in these difficult times.

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Reference

Kniesner, Thomas J. and Viscusi, W. Kip, The Value of a Statistical Life (April 10, 2019). Forthcoming, Oxford Research Encyclopedia of Economics and Finance ; Vanderbilt Law Research Paper No. 19-15. Available at SSRN: <https://ssrn.com/abstract=3379967> or <http://dx.doi.org/10.2139/ssrn.3379967>