

The political economy of the COVID-19 pandemic

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Abstract

We argue that the policy response to the COVID-19 pandemic by all levels of government around the world is not consistent with recommendations from standard welfare economics. Thus, it is important to ask why such policies have been adopted. That opens the door to examining the political economy of the COVID-19 pandemic. This requires examining the incentives and information that confront policymakers and voters and the institutional environments that shape their incentives and information. This lead article frames questions addressed in the remainder of the symposium.

KEYWORDS

COVID-19, pandemic, political economy, public choice, transmission externality

JEL CLASSIFICATION

I18; I31; H1; D6; D7; P5

1 | INTRODUCTION

The COVID-19 pandemic erupted quickly in 2020. China confirmed the existence of this novel coronavirus on January 7. The first confirmed case in the United States was reported on January 19 and the first recorded death related to COVID-19 in the United States on March 2. By the end of 2020, there were 355,631 confirmed deaths in the United States and 1,829,126 deaths globally related to COVID-19. Viscusi (forthcoming) estimates the value of life lost from these deaths in the United States at \$3.9 trillion, and globally at \$10.1 trillion.

The economic contraction caused by both the virus itself and to policies, such as stay-at-home orders, that governments have adopted in response to it has been massive. Through the

first two quarters of 2020, U.S. GDP fell 22.04% at an annualized rate. U.S. unemployment peaked at 14.7% in April. Economic activity increased sharply over the summer and through the fall as government regulatory restrictions on activities were relaxed. However, as we write this introduction, we are in both a second wave of the virus and a second wave of government restrictions on economic activities, both in the United States and in many other countries. The *New York Times* classified nine states, including California, New York, and Illinois, as “mostly closed” for businesses on December 16 and another 10 states as mixed.¹ Similar, or often stricter, lockdown restrictions have been re-imposed in the United Kingdom, France, Italy, Germany, and other European countries.

The novel coronavirus was bound to both cost lives and decrease economic activity, regardless of what policies governments chose to adopt. As Cachanosky *et al.* (2021) explain in greater detail later in this symposium, the virus was a real negative productivity shock. Thus, a contraction in economic activity was inevitable. If we believed that the policies adopted by governments in the United States and around the globe were efficient responses to the shock of a new coronavirus, there would be little point in organizing a symposium on the political economy of the COVID-19 pandemic. In that case, the story would be a simple public interest one. Disinterested government officials implemented policy based on the omniscient advice of health, epidemiological, and economic science, that efficiently balance tradeoffs for society to promote overall well-being. In such a case, the negative consequences, both health and economic, are a constrained optimum.

Unfortunately, from the perspective of promoting overall societal well-being, we believe that governments in the United States and around the world made significant errors in their policy response to the COVID-19 pandemic. If we are correct in that judgment, it is important to understand *why*. Thus, the need for a symposium exploring the *political economy of the pandemic*. As we will explain later, a political economy perspective challenges the assumptions of omniscience and benevolence of all actors—politicians, regulators, scientists, and members of the public—in response to the pandemic. We live in an imperfect world, populated by imperfect beings, who interact in imperfect institutional environments (see Eggertsson, 2005). Yet, starting from a basic behavioral postulate that people are the same whether they are in the marketplace, the government, or in the non-profit voluntary sector, we will explore the systemic effects of alternative institutional arrangements on choices of individuals and their adaptation and adjustments in response to the feedback they receive from the consequences of those choices. As James Buchanan (e.g., 2009) stressed, the same players with different rules produce different outcomes. And thus, the variation in outcomes is to be explained by variation in the institutions, not the differences in people. However, before proceeding to introduce that framework, it is first necessary to outline the basic welfare economics of a policy response to the COVID-19 pandemic, as if guided by an ideal textbook analysis of an externality, in order to contrast the recommendations of such an approach with what was actually implemented by governments. As J. S. Mill (1859, p. 87) argued “that for such actions as are prejudicial to the interests of others, the individual is accountable, and may be subjected either to social or to legal punishments, if society is of opinion that the one or the other is requisite for its protection.” Basic welfare economics from Mill to Marshall and Pigou to Samuelson and Arrow, as well as Friedman and Stigler and Buchanan and Coase, worked out the ideal principles of public policy for addressing actions that are “prejudicial to the interest of others.” Even in the context of the

¹<https://www.nytimes.com/interactive/2020/us/states-reopen-map-coronavirus.html>.

basic principles of public policy, the economic perspective is one of managing trade-offs as efficaciously as possible. Therefore, finding a deviation between the textbook recommendations of welfare economics, and what was actually implemented, opens the door for the consideration of the political economy factors that resulted in different outcomes.

2 | THE WELFARE ECONOMICS OF THE COVID-19 PANDEMIC

“Follow the science” has been an oft-repeated phrase over the course of the COVID-19 pandemic. It is used mostly to implore people to do what epidemiologists recommend. However, epidemiologists have no expertise in weighing health benefits against other costs.² Economics is the science that deals with evaluating the tradeoffs between costs and benefits. This section sketches out the general characteristics of what COVID-19 policies would look like if politicians followed the science of economics and adopted policies that standard welfare economics would recommend. Our purpose here is not to derive a precise optimal policy that is fully parameterized, but, rather, to outline the general nature of what such a policy would look like, so that we can compare it to the actual policies implemented.

The economic justification for any public policies to mitigate the COVID-19 pandemic hinge on the presence of externalities. The mere fact that COVID-19 is deadly would not justify a public policy response if all of the risks associated with contracting the disease were completely internalized to individuals making decisions. Individuals weighing their own marginal benefits of engaging in activities involving a risk of catching the disease against the probability of catching the disease times the value of their expected health outcome would lead to the socially optimal amount of disease and death. As with any risky activity that also has benefits, that number would exceed zero. Unfortunately, when individuals contract COVID-19 they also contract the possibility of infecting others with the disease. If individuals do not account for how their own activities risk their contracting the disease, this raises the risk of contraction for others, causing a transmission externality. It is a classic situation where private marginal costs diverge from the full social marginal costs, so that individuals left to their own devices would engage in inefficiently too much risk taking, leading to inefficiently too much disease spread and death.

The underlying logic of the transmission externality that justifies some form of public policy response to address the COVID-19 pandemic is present with most (all?) contagious diseases. However, when externalities are small, the cost of correcting them is often larger than the inefficiencies caused by the externality (Coase, 1990).³ Presumably, a greater public policy response to COVID-19 than to, say, seasonal influenza, is justified by the larger externality generated by COVID-19's ease of transmission and higher infection fatality rate. However, these same factors also might cause people to internalize the COVID-19 externality to a greater extent than they do less serious diseases, somewhat mitigating the rationale

²Indeed, they often fail to weigh other costs at all. See Inglesby *et al.* (2006) for a critical review of how epidemiologists must consider tradeoffs on multiple margins.

³See in particular his discussion on pp. 24–26, which includes the point that “The fact that governmental intervention also has its costs makes it very likely that most ‘externalities’ should be allowed to continue if the value of production is to be maximized.” And “If with governmental intervention the losses also exceed the gains from eliminating the ‘externality,’ it is obviously desirable that it should remain.”

for regulation.⁴ Furthermore, if contracting COVID-19 confers immunity, then the negative externality associated with transmitting it to others is partially offset by the positive externality generated by moving society closer to achieving herd immunity. Leeson and Rouanet (2021) argue that economists have significantly overestimated the magnitude of the COVID-19 negative externality for three reasons. First, unlike classic externalities, contagious disease externalities are often self-limiting because the risky activity of uninfected people becomes privately more costly as infection is more widespread. Second, because risky activities are done on private property the “on-site” transmission externalities are internalized to business owners, leaving only the value of the “cross-site” transmission as a true externality. And that third, the value of that cross-site externality is not the value of lost life, but rather the additional mitigation costs undertaken in response to that externality. Leeson and Rouanet (2021) do not empirically estimate the magnitude of the externality that remains a social cost. If it were small enough, compared to the social cost of any feasible regulatory correction, then the optimal regulatory response to COVID-19, much as with seasonal influenza, would be zero. However, for the purposes of the following analysis, we will assume that, after accounting for the factors Leeson and Rouanet mention, there remains a significant net negative externality associated with COVID-19.

Both the size of the negative externality, and the cost of mitigating it, are heterogeneous across people. Numerous studies show that the negative health and expected mortality costs for the young and healthy are considerably lower than for the old and infirm with comorbidities. A summary article of some of these studies was published last August in *Nature* finding, “For every 1,000 people infected with the coronavirus who are under the age of 50, almost none will die. For people in their fifties and early sixties, about five will die—more men than women. The risk then climbs steeply as the years accrue. For every 1,000 people in their mid-seventies or older who are infected, around 116 will die. These are the stark statistics obtained by some of the first detailed studies into the mortality risk for COVID-19” (Mallapaty, 2020). Although the opportunity costs of restricting *some* activities of the young and healthy, in order to lower the risk of transmitting the virus to others, might be low, these marginal opportunity costs increase quickly as activity is restricted, because the young and healthy are mostly in the workforce supporting their families or building their human capital by pursuing education. Figure 1 illustrates the private and social marginal benefits and the private marginal costs of lowering the amount of activities that people engage in that generate a risk of COVID transmission, in a market where all people are young and healthy. The origin of the graph indicates a situation where no risk mitigation is taken and the far right of the graph illustrates a situation where zero risks are taken. Individual decision-making leads to some risk mitigation, but less than the socially optimal amount. However, given that the negative externality is small, the difference between the socially optimal amount of mitigation and the privately chosen amount is also small.

Conversely, Figure 2 illustrates a market where everyone is old and/or infirm. In this market, the private marginal benefits of decreasing activities that increase the risk of COVID transmission are much greater. Also, since the old or infirm are less likely to be in the workforce, or obtaining their education, the marginal costs of decreasing risky activity increase much more slowly than in Figure 1. However, in this case, since the health consequences of spreading

⁴For instance, being more careful with one's own exposure before visiting elderly family members. Alternatively, the novel nature of the disease and its media coverage might cause one to overestimate their private costs of contracting the disease, thus their erroneous weighting of their private costs might more closely align private decision making with true social costs.

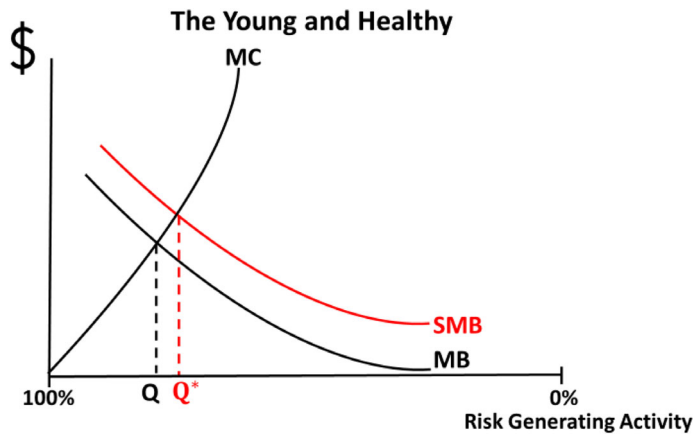


FIGURE 1 Young and Healthy [Color figure can be viewed at wileyonlinelibrary.com]

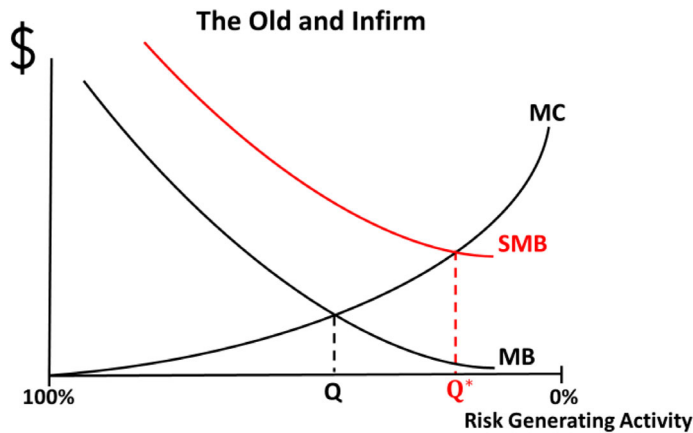


FIGURE 2 Old or Infirm [Color figure can be viewed at wileyonlinelibrary.com]

COVID-19 to others are much higher than in a market of young and healthy people, the social marginal benefits of decreased activity that risks spreading COVID are substantially greater. As a result, private decision-making leaves the market far from the socially optimal amount of risk mitigation.

Society is composed of both young and healthy and old and infirm people. The presence of the old and infirm does little to shift the marginal costs and benefits of engaging in risky activity of the young, since the old/infirm voluntarily restrict much of their own risky activity and the young/healthy still suffer relatively small adverse health consequences from COVID.⁵ However, the presence of young healthy people engaging in activities that increase the community spread of COVID-19 significantly increases the marginal benefit of further restricting the activity of the old or infirm, as illustrated in Figure 3.

⁵Perhaps the MB curve would shift out slightly as they account for the risk of spreading the disease to older relatives, but it is unlikely to shift enough to substantively change our analysis here.

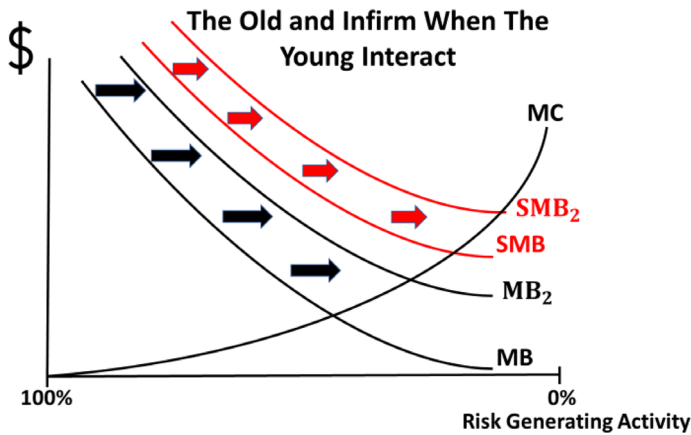


FIGURE 3 Interaction Between Young and Old [Color figure can be viewed at wileyonlinelibrary.com]

Our sorting of society into two discreet groups of young/healthy and old/infirm is obviously an oversimplification. Some young and healthy people may have slowly rising marginal costs, from decreased activity, because they can work from home and, conversely, some older people are still in the workforce and can decrease activity only at quickly increasing marginal costs. The mortality risks of COVID are extremely skewed for the very old and very young but, of course, there are some intermediate risks as well. With these caveats in mind, we think our segmenting of the market captures the essence of the situation. The activities of the young and healthy can be decreased only at high and rapidly increasing marginal costs, and their engagement in these activities creates a negative health externality largely borne by the old and infirm, who both experience worse health outcomes and bear costs of further restricting their own activity to help offset the chance of contracting a disease that is more widely spread because of the actions of the young/healthy.

One of Coase's fundamental contributions in the Problem of Social Cost (1960) was to illustrate the reciprocal nature of externalities.⁶ The activities of the young and healthy impose a negative health externality on the old and infirm. But it is equally true that if the activities of the young are restricted because of the presence of the old and infirm, this latter group has imposed a negative externality on the young and healthy. If transactions costs were low, the Coase theorem would dictate that it would not matter to which party the rights to activity or restriction were assigned, as bargaining would reach the efficient outcome. However, in the case of COVID-19, and large populations, it is quite clear that transactions costs of bargaining would be prohibitive. Thus, the standard law and economics approach would recommend assigning rights such that the least cost mitigator bears the burden of adjusting to the externality. In the case of COVID-19, it is clear that the low opportunity cost mitigators are the old and infirm. Thus, Coasean economics would recommend allowing the activities of the young and healthy to impose externalities on the old and infirm, not the other way around. Lockdowns and stay at home orders get the allocation of rights exactly backwards and result in large inefficiencies because costs are disproportionately borne by the high cost mitigators. However, a welfare economist would not stop the analysis at this point, because there remains a large externality

⁶For an extended discussion of the relevance of Coase's work to the COVID pandemic, see Boudreaux (2020a, 2020b, 2020c).

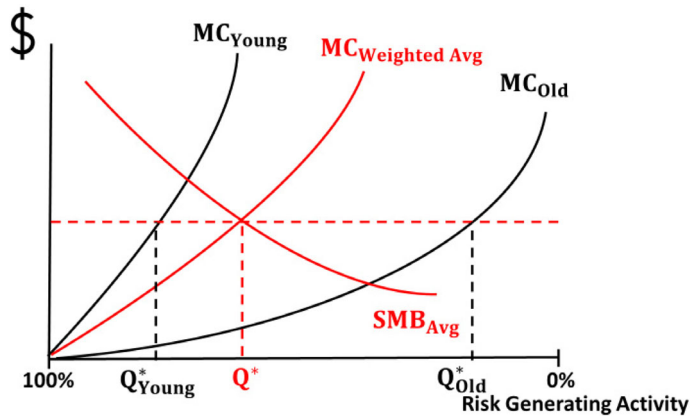


FIGURE 4 Societal Efficient Risk Reduction [Color figure can be viewed at wileyonlinelibrary.com]

causing an inefficient outcome. Standard welfare economics just does not recommend correcting the externality by locking down and issuing stay at home orders as governments around the world did in March and April 2020 and are doing again in the winter months.

Figure 4 aggregates the social marginal benefit and social marginal cost of restricting activities that generate risk for both the young/healthy and the old/infirm, and illustrates the social optimum at Q^* . However, it also illustrates the heterogeneous mitigation costs for the young/healthy and old/infirm. In order to arrive at Q^* most efficiently, we need to equalize the marginal cost of risk reduction across both populations. That means getting the young and healthy to decrease their level of activity from the origin to Q^*_{young} and getting the old and infirm to make a much larger reduction in activity, from the origin all the way over to Q^*_{old} where the difference between Q^*_{old} and zero risk is equal to the distance from Q^*_{young} to Q^* .

A standard welfare economist would consider how best to intervene in order to get the market to the efficient outcomes in Figure 4. The marginal costs of reducing risk-generating activities are really just the inverse of the subjective marginal benefits of engaging in myriad social interactions in the market place, civil society, families, politics, religious communities, and recreation. No regulator is going to know the value of these diverse activities to those engaged in them. Economists have long appreciated that, in the presence of heterogeneous mitigation costs, command and control regulation of much simpler pollution mitigation is less efficient than a pollution tax, because firms know their mitigation costs better than regulators. That informational asymmetry between the economist regulator and people regulated is even greater in this case. Thus, an efficiency maximizing economist policy advisor would recommend leaving people free to choose activities for themselves, while imposing a tax on activities set to reduce the marginal benefit of engaging in activities, proportional to increased risk of COVID-19 transmission.⁷

We are aware of no government in the world that has pursued such a policy. Pigovan remedies were never proposed, nor was Coasean bargaining considered. Instead, lockdown and stay-at-home orders were replaced with varying degrees of command and control regulation of

⁷More accurately, following Leeson and Rouanet (2021) it would be set based on the value of the increased cross-site transmission externality.

activities by national, state, regional, and local governments around the world.⁸ Governments determined which businesses could and could not reopen, at what capacities, during which hours, with what mitigation measures. Some restaurants are allowed to serve diners indoors, others outdoors only. Some bars are not allowed to be open at all. Others can open, but with no seating at the bar. Yet others can serve a drink, but only if the customer orders a meal – and governments have started regulating what food counts as a meal. The thousands upon thousands of varied restrictions are too numerous and diverse for us to comprehensively categorize here. But their sheer number and variability make it obvious that these command and control regulations are not in any way promoting a cost minimizing form of transmission mitigation.

An alternative, but complementary, approach to dealing with the COVID-19 externality that a welfare economist would recommend is to undertake policies that lower the cost of the externality, rather than just trying to limit activities that lead to virus transmission. These policies could include government funding to expand hospital capacity and the purchase of supplies and equipment, and research funding to speed the discovery of new medical treatments and vaccines. They could also include removal of regulatory barriers that impede medical capacity and the development of medicines and vaccines. Unlike efficient policies related to the mitigation activities that risk disease transmission, governments have undertaken these policies to varying degrees.

Some U.S. states rolled back restrictions on the practice of telemedicine and allowed doctors and nurses, licensed in other states, to practice in states where they were not licensed. The federal government sent U.S. Navy hospital ships to cities hit hard, in the early wave of the pandemic, and has helped expand emergency hospital capacity in hard hit areas since. Changes in the regulatory framework in the Food and Drug Administration are discussed in March's (2021) contribution, later in this symposium, so we will leave a discussion of those to his article.

Through operation Warp Speed, the federal government invested \$10 billion to fund the development of vaccines and guaranteed minimum purchases to encourage advanced production. It is worth noting, however, that federal spending on items that a welfare economist might recommend pale in comparison to spending on other programs passed in response to the COVID-19 pandemic. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) did provide the medical industry and medical equipment manufacturers with \$130 billion in funding. However, the CARES Act authorized \$2.2 trillion in total spending. Most of that funding was directed to providing loans, credits, and grants to qualifying individuals and businesses. Although there may be equity rationales for some of this spending, it also created rents for politicians to dole out. Similarly, Congress passed another \$900 billion COVID-19 relief bill in December that was attached to a large omnibus spending bill. Much of the COVID-specific funding again went to funding loans, credits, and grants to qualifying individuals and businesses rather than helping to correct for externalities. At over 5,700 pages it also included plenty of non-COVID related pork; some examples include creating two new Smithsonian museums (Museum of Women's History and Museum of the American Latino), \$40 million for the Kennedy Space Center, and \$10 million for gender programs in Pakistan.

⁸To be clear, we are not claiming that stay-at-home orders or command and control regulations do not reduce the COVID transmission externality. Courtemanche *et al.* (2020) empirically estimated that stay-at-home orders and bar and restaurant closures in March and April of 2020 did reduce transmission, although bans on large events and school closures did not. Our point is that standard welfare economics would indicate that, even when such regulations do reduce transmission, they are unlikely to be the least costly way to do so. Such restrictions are even more clearly inefficient when they do not even achieve a reduction in the externality.

As we write this introduction, two vaccines, one created by Moderna, and the other by Pfizer, have been approved by the FDA for emergency use. Initial supplies will be far smaller than demand and the Center for Disease Control (CDC) has published recommendations to prioritize who has access to vaccinations first.⁹ They recommend prioritizing, in order, healthcare personnel, residents of long-term care homes, workers in essential and critical industries, people with underlying medical conditions, and people 65 years of age and older. The federal government will purchase all of the vaccines and then allocate them to states, who are free to follow, or modify, the CDC guidelines for their own distribution. Even if they follow the CDC guidelines, they will define the nature of “essential” workers differently, much as they did during lockdowns, and exactly who counts as a health care worker or what is a qualifying underlying condition. The *Wall Street Journal* reported industry groups lobbying to be classified as essential in order to get preferential access to the vaccines for their employees, before either of these vaccines were even approved (Krouse and Bunge, 2020). There is no mention in CDC guidelines of trying to minimize transmission externalities. Instead, the CDC published guiding principles to allocate limited supply that included “Maximize benefits and minimize harms; Mitigate health injustices; Promote justice; Promote transparency.”¹⁰ Perhaps some allocations, such as to the old and infirm, might be grounded on the basis of lowering the cost of any transmissions that do occur. But prioritizing a potentially large group of “essential workers” ahead of some of those most at risk, without regard to transmission externalities, leads one to be skeptical that governments are basing allocation decisions on externalities.

Any microeconomist worthy of the title knows that using markets and the price system is usually the best way to allocate scarce resources to maximize value. If some “equity” goal, or wealth constraint, is the concern, economists have long recognized that it is more efficient to redistribute resources through income transfers, than to make direct allocations, in-kind, of a scarce good. As economist John Cochrane pointed out, access to the vaccine is really not a question of who gets protected first. It is a question of who avoids infection by reducing activities and who avoids infection via vaccine,

The question is, really, “Who should get a treatment that allows them to be out and about, risking contact with the virus, rather than protect themselves by traditional means?” It is really mainly an economic benefit, avoidance of the cost of other measures to stay healthy. There is an economic answer: people should be out and about first who generate the most economic benefit from being out. And, therefore, are willing to pay the most to get the vaccine.

If it goes to the highest bidder, then the highest value activities, that benefit most from reduction in social distancing, come back faster. I don’t know what those are, but pretty much by definition, the economy recovers faster (2020).¹¹

Even if policymakers cared more about the welfare of the people that guidelines currently prioritize for vaccination, they could design policy better than the CDC guidelines by allocating a re-sellable right to receive the vaccination, rather than the vaccination itself. Those prioritized individuals who resell the right will, through their actions, indicate that they are even better

⁹<https://www.cdc.gov/coronavirus/2019-ncov/vaccines/recommendations-process.html>.

¹⁰<https://www.cdc.gov/coronavirus/2019-ncov/vaccines/recommendations-process.html>.

¹¹<https://johnhcochrane.blogspot.com/2020/12/free-market-vaccines.html#more>.

off, and the transfers of the right to higher value vaccinators would promote greater efficiency too. No politicians are considering such policies. Even Cochrane wrote,

At least economics should start with “to the highest bidder,” and come up with some well documented market failure, and a public allocation system that mimics the highest bidder allocation. That nobody dares say this in public, not even my favorite libertarians (that I have seen—send links to anyone else nuts enough to say this in public!) is a little surprising. What happened to America, and to economics, that absolutely nobody seems to even question the holy writ that drug companies shall only sell to governments, governments shall allocate vaccines, and severe legal penalties shall accrue to anyone who doesn't like it? (2020).¹² [P.S., Here we are John!]

The regulation of activities related to COVID-19 transmission has looked nothing like what any reasonable economic scientist would recommend in a world where the politics of economic policy were not omnipresent and a determining factor in the policy choices made. When governments have funded projects that an economic scientist would recommend, it has been as much by accident as by design. It is hard to spend more than \$3 trillion and not hit upon something economists might recommend. And now that the vaccines are being allocated, governments are using command and control, rather than market mechanisms, to allocate them despite the litany of shortcomings that have already been readily identified with command and control approaches to resource allocation issues. In short, standard welfare economics policy prescriptions have not played a significant role in the adoption of COVID-19 pandemic policies in the United States, or most other places in the world. If the “Political Coase Theorem” were true, such policies, perhaps along with context specific efficient rent re-allocation mechanisms, would have been universally adopted.¹³ Scientific progress, we argue, demands that public policy and administration be subjected to a thorough economic analysis of the institutional environment within which collective decision-making takes place in order to help us understand the governmental policy responses to the COVID-19 pandemic (see Boettke, 2018). That opens up the question this symposium explores: what political economy factors have explained the adoption of pandemic policies. We next review that general framework.

3 | PANDEMIC POLITICAL ECONOMY AND PUBLIC CHOICE

The coronavirus pandemic has placed an extreme stress test on the institutions of collective action world-wide. Some form of inattention and nonchalance was followed by panic and then a search for coordinated responses on several fronts. Even as individuals were enlisted to follow guidelines, public orders were instituted by governments throughout the globe to shut down large parts of the public (schools and libraries), private (commercial enterprises), and independent (churches) sectors. Many services and products were considered too essential to be shut down, but their production and provision practices were adjusted to the new circumstances.

¹²<https://johnhcochrane.blogspot.com/2020/12/free-market-vaccines.html#more>.

¹³See Acemoglu (2003) for a discussion of how commitment problems by both government officials and citizens prevent a Political Coase Theorem from operating.

For any of us paying attention, we have a front row seat to collective decision making and its 24/7 coverage by the modern media. This includes a steady dose of what has been dubbed the mainstream media, as well as alternative media, including social media. The news cycle does not give much time to digest the collective actions we have been witnessing, but is often a constant streaming of play-by-play analysis.

We should stop and think about what we are watching unfold before our very eyes. We have political officials—local, state, federal, and international—making policy decisions. We have public health officials, at all levels, providing analysis on constantly changing data and projections, and thus seeking to provide up-to-date recommendations. And, we have the media reporting on the fluid situation and trying to provide stories to us that will draw us in rather than switching to Netflix, Amazon Prime, or old sporting contests that either escape our memory or whose brilliance still captures our imagination. Despite the severity of the situation, the news media are competing for our attention, and it tends to do so by systematically reporting news with negative connotations (Sacerdote *et al.*, 2020).¹⁴

None of this is new to 2020, let alone the COVID-19 pandemic, but it is actually as old as the game of politics itself. Politics, from ancient times to modern, was a game played by human actors, while others were tasked with communicating the results of the game to others. All that public choice analysis of collective action, or of media coverage of it, boils down to is a simple recognition that people are people. These people have aspirations and dreams; they have desires and goals; and they have purposes and formulate plans to pursue those purposes. Nothing very exotic about that. What is exotic is to assume that that is true for everyone, and not just for some people. To put a fine technical point on it, we must assume symmetry of behavioral assumptions across the different institutional context. The same fallible but capable human actors are making decisions in the public, private, and independent sectors. They are all responding to incentives and adapting on various margins to more effectively achieve their purposes and more effectively execute their plans. People as people strive to do the best that they can, given their situation, to achieve the goals they set for themselves. They may err in both execution and judgment, but they also learn from that failure and adapt and adjust to be less erroneous in the future. In our context, public officials, health experts, and media watchdogs are all engaged in doing their jobs as ordinary people responding to the structure of incentives that they face. We would do well to avoid invoking superhuman beings occupying these different roles, and instead just stick to the basic assumption that people are people. Unless their incentives are properly aligned, none of these people will simply follow the advice of either epidemiological science or economic science.

When we examine the logic of purposive actors interacting within the democratic process of collective decision making, there is a bias the system produces to concentrate the benefits of the decision on well-informed and well-organized groups, and to disperse the costs on unorganized and ill-informed others, and to do this in the short-run (Olson, 1965). This is how we get public policies that may provide short-run relief for some, but cause severe long-run damage to the economic system, for example, permanent deficit finance and accumulating public debt. But telling this story as a consequence of systemic incentives brought about by the institutions within which collective action takes place often does not capture the imagination of the media nor the attention of potential viewers/readers. Headlines are not compelling when they identify the systematic, yet unintended, consequences of human action, but are compelling when filled

¹⁴They find that 91% of stories in major U.S. media outlets were negative in tone and that stories of increasing COVID-19 cases outnumber stories of decreasing cases by a factor of 5.5 even during periods when new cases are declining.

with villains and heroes. Bad people do bad things, but good people do good things—and great people do GREAT things. This is the preferred narrative, and the media fuels that. They anoint saints, and condemn devils in the public, private, and independent sector. The saints must be self-less, and the devils must be self-serving. And the script cannot be otherwise written, without the authors risking miscomprehension at best and scorn at worst.

While, as economists, we insist that we must always place the theorist within the model itself, and remember that we are part of the equilibrium as Robert Tollison (1986) always stressed, we also understand that we are playing a slightly different game. We are the observers of the spectacle of the game of collective action, and the history is being written in real time. This symposium is an effort to bring together a diversity of voices, who share a political economy perspective, and look at different aspects of this unfolding historical story. The common theme one sees emerge is that incentives matter, and institutions structure incentives. And, of course, once again, people are people, and as such they respond to the incentives they face in predictable ways.

The Good/Bad people distinction forms the basis of the theory of social interaction we adopt early in our childhood, and eventually grow out of, though it is always lurking. It is the quintessential non-theory because it does not even pretend to offer an explanation, but just a pure description with names attached to it. This is particularly damaging when it comes to trying to articulate a theory of the relationship among collective action, media, political decision making, public policy implementation, and results from actions taken in the public arena. LSE economist Tim Besley (e.g., 2002; 2006) has, for many years, stressed how the media could provide the necessary information to citizens for selection of public actors, but also the appropriate feedback for these public actors to choose better and more effective policies. Mass media, he argues, were a critical tool in establishing political accountability in a democratic society. Anyone who has read J. S. Mill, let alone any of the U.S. Founding Fathers, such as Jefferson, will find this argument compelling. A free press is a fundamental institution of a free society. But, the press can also be captured by the political apparatus and cease to effectively provide its accountability function.

In their book *Media, Development and Institutional Change*, Christopher Coyne and Peter Leeson (2009) examine the ability of mass media to affect institutional change and economic development. They show that media can both constrain the government, but also be manipulated by government to privilege the entrenched interests. If the media's relationship to the government is structured one way, a country can experience great economic development, but if structured another way, then progress will be slow and untold suffering will be that region's fate. Getting the media/government relationship right matters for human welfare, and yet in most times and places it is fleeting at best. Why?

The answer again is that people respond to the incentives that they face. In 2000, prior to even the rise of social media, Andrew Yates and Richard Stroup published a paper exploring the structural incentives mainstream media face in reporting news (2000). The context of their paper is media coverage of EPA pesticide decisions, but the general theory is about the media effort not merely to communicate information and feedback on policy choices in order to provide political accountability, but also to draw attention of potential audiences. One implication is that fair and balanced reporting may be too boring to grab the attention of the median listener/viewer/reader. Rather than nuanced and subtle discussion of trade-offs, and the calm calculation of risk, we get extreme projections of nothing here or catastrophe awaits. And, of course, those incentives for attracting an audience have grown more intense in the last decade with traditional print media competing with online sources.

The problem identified by Yates and Stroup becomes even more extreme as we enter the realm of what Michael Munger has identified as “truthiness” (2008; 2015). As Munger explains, truthiness is the idea that it is acceptable to work with concepts and facts in reporting that one wishes or believes to be true, regardless of whether these concepts or facts are known to be true. Once we enter the realm of truthiness, the sort of positive role that Besley or Coyne and Leeson identify for media disappears, and instead, media is just more of the noise that the powerful elites use to privilege themselves at the expense of others. Munger’s paper was originally published in *Public Choice* in 2007. Since that time the balance in media coverage between truth and truthiness has certainly moved in the unhelpful truthiness direction.

James Buchanan insisted that as political economists we must begin with the here and now (1959; 1975). We must not begin in an imaginary start state that would provide an easier transition from the current undesirable situation to a more preferred state of affairs. In our current context, we cannot wish away the virus, we cannot wish away political divisions, and we cannot wish away truthiness in journalism. We must view everything going on with realism and not romance. Public health officials face incentives in making their pronouncements. They are not necessarily untruthful, but they will be biased against committing an error of over optimism—no forecast or treatment protocol or vaccine will be championed that underestimates the downside risk. Better for them to commit errors of over-pessimism. But there are costs to this bias in public announcements, as overly pessimistic forecasts will grab media headlines and steer policy responses. Similarly, hesitation on approval for treatment protocols will produce delays and thus suffering, and same with delays on approval of an effective vaccine. The Moderna vaccine, approved by the FDA in December 2020, was created on January 13, 2020, only 2 days after the genomic sequence was made public, and before the virus was detected in the United States.¹⁵ Do not get us wrong: we understand the opposite as well—an overly rosy picture painted will lead to ill preparation or approval of a treatment protocol that may prove ineffective or downright dangerous. The same is true with potential vaccines. There are no easy ready-made solutions to the problem. As Thomas Sowell has repeatedly stressed, there are no solutions, only trade-offs. But it is legitimate to ask who should be choosing the trade-offs and for whom. Examining these trade-offs, and the behavior of those engaged in on-the-ground assessment of the trade-offs in the private, public, and independent sectors, is what a political economy perspective can shine scientific light upon.

The public conversation would have been significantly different if it had turned to balancing the necessary steps to stave off a public health crisis, while minimizing the damage this exogenous shock has on the personal lives of millions in their commercial and non-commercial endeavors. The creative and clever actors who populate the economy would have had to set about using their imaginations to solve a variety of social dilemmas that this pandemic has wrought. For this to happen, information must flow freely. The critical point we want to stress is that basic public choice analysis is a critical tool in thinking through the systematic biases. Hard-nosed public choice analysis can become, rather than an excuse for cynicism, the necessary realistic basis for institutional reform and human betterment.

4 | CONCLUSION

Economists still debate the political economy of the Great Depression and the consequences of the New Deal policy response 80 years later. Likewise, we imagine that COVID-19 and the

¹⁵<https://nymag.com/intelligencer/2020/12/moderna-COVID-19-vaccine-design.html>.

global policy response will be the subject of intense scrutiny by social scientists and historians for generations to come. Doing science in real-time is always a difficult matter. Consider not just the debate over the causes and consequences of the Great Depression, but also the policy debates concerning post-Communism and the analysis of Globalization in the late 20th and early 21st century. We certainly do not enter this discussion of the political economy of COVID-19 either lightly or with any hope of providing definitive answers. Instead, we hope to initiate an ongoing conversation, and to stress that the politics of economic policy cannot be ignored in this conversation.

What we have learned in 2020 is that the principles of federalism conflict with demands for command and control; that represents an older debate concerning managerial socialism that we may have thought was resolved but is still alive for a variety of reasons. We have also seen forces of what James Buchanan (2005) classified as paternalistic socialism and parental socialism at work. As Buchanan described, “With paternalism, we refer to the attitudes of elitists who seek to impose their own preferred values on others. With *parentalism*, in contrast, we refer to the attitudes of persons who seek to *have values imposed upon them* by other persons, by the state, or by transcendental forces” (2005, p. 23 emphasis original). A century ago, H.L. Mencken observed that “The whole aim of practical politics is to keep the populace alarmed (and hence clamorous to be led to safety) by an endless series of hobgoblins, most of them imaginary” (Mencken, 1918).¹⁶ Both politicians and the mainstream media have kept much of the populace in such an alarmed state throughout the pandemic, which has allowed both paternalistic interventions and created bottom up parentalist demands for such interventions, which have nothing to do with efficiently correcting a market failure. As Buchanan noted, “Liberty carries with it *responsibility*. And it seems evident that many persons do not want to shoulder the final responsibility for their own actions. Many persons are, indeed, afraid to be free” (2005, p. 23 emphasis original). Thus, particularly when they are scared, they voluntarily defer decision making authority for the choices of themselves and their fellow citizens to the state. The effect of COVID-19 pandemic has been precisely what Buchanan warned when he wrote about the rise of terror in the 2000s, “Terror, in actuality or in threat, almost necessarily places the individual citizen in a more enveloping dependency relation with the state” (2005, p. 30). This shift in public opinion, which has allowed for the massive expansion of government regulation over economic, civic, personal, and religious interactions, has significant consequences for the ability of individuals to take on the responsibility of weighing the trade-offs, and balancing their own risk preference, with the demands of the material well-being of their families and their health and happiness.

Unlike many in modern economics, although we appreciate the biases and fallibilities exhibited by human actors, we also believe 2020 has illustrated once more the reality that people respond to the incentives that they face, and those incentives are a function of the institutions within which they make decisions. If we reject both institution-free economic analysis, and an analysis of economic policy as if it is conducted by omniscient, benevolent and omnipotent actors, we are compelled to engage in a more realistic analysis of the politics of economic policy and of the behavior of clever and creative actors. Matt Ridley (2020) has recently argued that innovation is the child of freedom and the parent of prosperity. But that innovation requires a certain institutional environment that prods the tinkers and thinkers to direct their attention toward innovation and translating scientific knowledge into useful knowledge. That

¹⁶Page numbers unavailable but the quote can be found in the ebook at <https://www.gutenberg.org/files/1270/1270.txt>.

does not just happen. As a consequence, Elinor Ostrom's words about the lessons from political economy and policy remains relevant even in the wake of a pandemic.

"The most important lesson for public policy analysis," Ostrom argued in her Nobel Lecture, "is that humans have a more complex motivational structure and more capability to solve social dilemmas than posited in earlier rational-choice theory." She continues: "Designing institutions to force (or nudge) entirely self-interested individuals to achieve better outcomes has been the major goal posited by policy analysts for governments to accomplish for much of the past half century. Extensive empirical research leads me to argue that instead, a core goal of public policy should be to *facilitate the development of institutions* that bring out the best in humans. We need to ask how diverse polycentric institutions help or hinder the innovativeness, learning, adapting, trustworthiness, levels of cooperation of participants, and the achievement of more effective, equitable, and sustainable outcomes at multiple scales" (Ostrom, 2010, p. 672, emphasis added).

Mandates and restrictions do not provide such an environment, but nothing in guidelines and recommendations would be inconsistent with innovativeness and bottom-up improvements. The tensions evident in the top-down solutions of command and control, and the bottom-up solutions discovered by nimble and entrepreneurial actors are played out in the various papers that contribute to this symposium. Moreover, although the papers in this symposium take the existence of an externality seriously, they also seriously consider public choice concerns about how the political process works and Austrian concerns about the limits of knowledge in the absence of market signals from a conceptual level to empirical analysis.¹⁷ The papers explore the nature of the Covid-19 externality (Leeson and Rouanet, 2021) the conceptual foundations of public health policy (Coyne *et al.*, 2021), the history of public health measures (Candela and Geloso, 2021), the impact of the prior policy environment on the policy choices made during a pandemic (McCannon and Hall, 2021), international comparisons of policy responses (Bylund and Packard, 2021; Choutagunta *et al.*, 2021), the macroeconomics of a public health crisis (Cachanosky *et al.*, 2021), the impact of the regulatory regime on pharmaceutical innovation (March, 2021), the determinants of pandemic reforms of drug and alcohol regulation (Redford and Dills, 2021) and the role of civil society and entrepreneurial innovation in response to the public health crisis in determining what activities are essential (Storr *et al.*, 2021).

As the guest editors of this symposium, we thank the contributors for their respective efforts and for initiating the conversation among our peers in economics and political economy. This will no doubt be a contested conversation for generations to come. By joining that scientific dialogue with this symposium, we sincerely hope that both economic science and the art of political economy will be illustrated to be a force for improved understanding of the human condition, and it will illustrate the importance of institutions that give elbow room for ordinary citizens to pursue productive specialization and realize peaceful social cooperation through exchange.

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¹⁷Lawson and Clark (2019) challenges free market economists to embrace just such a research agenda.

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