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Pay People to Get Vaccinated

By N. Gregory Mankiw

What's the best way to get the economy back on track after the Covid-19 recession? Simple: Achieve herd immunity. And what's the best way to achieve herd immunity? Again, simple: Once a vaccine is approved, pay people to take it.

That bold proposal comes from Robert Litan, an economist at the Brookings Institution. Congress should enact it as quickly as possible.

President Trump has blamed the nation's economic malaise on the unwillingness of local officials to allow businesses to open. Back in April, he tweeted, "LIBERATE MINNESOTA!"; "LIBERATE MICHIGAN!"; "LIBERATE VIRGINIA!" He seems to think that governors and mayors hold the economy's fate in their hands.

They don't. Recent research by the University of Chicago economists Austan Goolsbee and Chad Syverson has found that the government-mandated shutdowns account for just a small part of the decline in economic activity. The main reason people aren't spending is that they are afraid to leave their homes and contract the virus. That hypothesis explains my own behavior. I have not stepped foot on an airplane or inside a restaurant for six months.

The hypothesis is also is consistent with the broader pattern of spending changes. According to data collected by Opportunity Insights, a research group based at Harvard, consumer spending has fallen the most in high-income ZIP codes. But those with high incomes have experienced almost no fall in employment. They are spending less not by necessity but by choice.

Paradoxically, this behavior may be helping to drive the stock market higher. When income isn't spent, it is saved. Over the last four months, the personal saving rate has reached its highest levels on record. An increase in saving makes more dollars available for lending to borrowers and thereby reduces interest rates. Since January, the yield on 10-year inflation-adjusted bonds has fallen more than 100 basis points. As the return on fixed-income assets declines, expected cash flows from owning stock become relatively more attractive, and stock prices rise.

But the stock market isn't the real economy. Even if stock prices remain near record highs, spending, employment and production won't fully recover until the fear of catching the virus dissipates.

That's why the solution to America's macroeconomic woes will have to come from microbiology. Nine vaccines are already in Phase 3 trials. It is most likely only a matter of time before at least one of them is approved.

Once a vaccine becomes available, however, another challenge arises: getting people to take it. In a recent NBC News/SurveyMonkey Weekly Tracking Poll, only 44 percent of Americans said they would get the vaccine. The rest said they wouldn't or weren't sure.

Given President Trump's skepticism about scientific experts, it perhaps comes as no surprise that there is a partisan divide on the topic. While 58 percent of Democrats and those who lean Democratic said they would get the vaccine, just 36 percent of Republicans and those who lean Republican said the same.

Those numbers are troublingly low. No vaccine will be 100 percent effective, which means that getting vaccinated won't be sufficient to protect yourself from the virus. But if enough people get vaccinated, society will develop herd immunity. With widespread, even if imperfect, vaccination, the virus won't be able to spread. No one knows for sure, but experts believe that 70 to 90 percent of the population will need to be vaccinated.

Immunology, meet economics. One of the first principles of economics — perhaps the most important — is that people respond to incentives. Applying this principle to the case at hand, Mr. Litan recommends that the government pay $1,000 to whoever gets the vaccine. With a large enough incentive, most Americans are likely to get vaccinated.

This proposal is textbook economics. (I've written some of the textbooks.) As all economics students learn, when an activity has a side effect on bystanders, that effect is called an externality. In the presence of externalities, the famous theorems of economics that justify laissez-faire do not apply. Adam Smith's vaunted invisible hand can no longer work its magic.

A classic example of a negative externality is pollution, and the simplest and least invasive policy solution is a tax on emissions. In economics-speak, such a tax internalizes the externality: It induces polluters to take the cost of pollution into account by giving them a financial incentive to cut emissions.

That's why I have written here many times that a tax on carbon emissions is the best way to deal with global climate change.

Vaccination confers a positive externality. When you get vaccinated, you benefit not only yourself but also your fellow citizens by helping society take a step toward herd immunity. In this case, internalizing the externality requires not a tax but a subsidy, as Mr. Litan suggests.

To be sure, this proposal is costly. If most Americans were to accept the payment to take the vaccine, as is intended, the program would cost the federal government about $300 billion. Presumably, this spending would add to the government debt, which is already projected to reach new highs as a percentage of G.D.P. over the next few years.

But now isn't the time to worry about government debt. Deficit finance is appropriate in times of crisis, such as major military conflicts and deep economic downturns. The current situation is surely a crisis, and the cure costs far less than the disease.

After the pandemic is over, Congress can take steps to reduce the government debt. Perhaps after seeing how a vaccine subsidy can end one crisis, Congress will pay for it by adopting a carbon tax to avert another.