



5 questions for Ryan Bourne on the economics lessons of COVID-19

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What economics lessons can we take away from the pandemic? Did early shortages show a failure of globalization or of government? Were lockdown policies the right course? And how optimistic should our rapid creation of powerful vaccines make us? I recently discussed these questions and more in my recent podcast interview with Ryan Bourne.

Ryan is the R. Evan Scharf Chair for the Public Understanding of Economics at the Cato Institute. Previously, he was the head of public policy at the Institute of Economic Affairs and the head of economic research at the Centre for Policy Studies. He is also the author of the new book, [Economics in One Virus: An Introduction to Economic Reasoning through COVID-19](#).

Below is an abbreviated transcript of our conversation. You can read our full discussion [here](#). You can also subscribe to my podcast on [Apple Podcasts](#) or [Stitcher](#), or download the podcast on [Ricochet](#).

Pethokoukis: This book is meant to introduce people to economics by applying it to the pandemic. So for starters, what do you think most people commonly misunderstand about economics?

Bourne: People think economics is primarily about the macroeconomy — GDP forecasts, unemployment trends, and the like. But the reason I wrote this book was to show how economics, at its most basic, is actually the analysis of human behavior in a world of constraints.

Now, some economists do fall into the trap of talking about GDP as if it's the sum of human welfare. But that would lead to extremely faulty conclusions in this pandemic. When this crisis hit, all of us reassessed our day-to-day choices because, in the context of the pandemic, our welfare was actually enhanced by dramatically changing our lifestyles. If you just looked at GDP alone, you might have presumed that these were dreadful decisions, because we've become poorer as a society. But we made those decisions because the virus was out there. So you have to think carefully about the distinction between GDP — which, over the long term, proxies reasonably well for welfare — and our welfare in this very unusual circumstance.

Have economists made the US less resilient? Do we have globalization to blame for shortages of protective equipment? Or was this a failure of government to stockpile supplies beforehand?

The problem with this efficiency/resilience trade-off is the extreme uncertainty we have about the form that future catastrophes will take. We don't know what or when the next crisis is going to be. So one would — according to the resilience argument — have to invest in a whole host of different domestic production capacities to cover every eventuality, which would be extremely costly and undermine economic efficiency. So I just don't accept that there's as clear of a trade-off as people imply.

Political economy provides a much more robust explanation for why we were underprepared for this. Disease control is supposed to be a core function of government. But for politicians, the electoral incentives point away from preparing for low-probability, high-risk events. If you engage in preparation for a pandemic, electors often don't observe it and don't give you the credit you deserve. And even when this pandemic hit, politicians deterred market responses. For instance, public officials triggered anti-price-gouging regulations that capped prices in many areas, making it less profitable for companies to provide things like face masks and leading to sustained shortages.

Do we know whether lockdowns were the right thing to do?

Given the literature, my working assumption is that the public health benefits and economic costs of lockdowns were present on the margin, but they were both overrated by critics and proponents.

Now, defining a counterfactual is really difficult. Even in areas that don't lock down, people's behavior changes dramatically when the virus becomes highly prevalent. So in assessing lockdowns, you have to compare it to what you'd have expected to happen if the lockdown wasn't there. The problem is that there's a relationship between the two — if an area does lock down at some point, the absence of any future lockdown might make people overly confident.

Also, too few people have tried to measure the costs associated with the restrictions of liberties that don't show in GDP. Missing your grandparents' funeral because of restrictions wouldn't show up in GDP but obviously has a huge welfare cost to you. I haven't seen any comprehensive assessments take this more holistic look at the impacts of lockdowns.

Overall, in certain countries at certain times, lockdowns were clearly appropriate. In the UK, for example, this variant in December was out of control and they had to really tighten what they were doing. But at other times, I've perceived lockdowns as a sign of our failure to institute policies — such as rapid testing and contact tracing — that could have enabled us to better mitigate this.

What did we learn from the success of getting a vaccine so quickly?

My glass is half full on this. It's a relative triumph, given the regulatory environment these days. The FDA's hands were forced by the fact that this pandemic was extremely costly. And things like Operation Warp Speed clearly did speed this up on the margin by covering some of the firms from the manufacturing risks that they faced with such a major project.

However, there are things that we could have done to further speed things up. Human challenge trials — where you deliberately infect young and healthy volunteers in return for payment under controlled conditions — would have been a relative no-brainer. If we'd done that, I think we could have advanced this by a month or two. We also could have used various economic incentives to try and speed up the manufacturing and rollout process.

In the end, what do you think will be most people's takeaway from the pandemic?

I'd like them to take away that it's great to have a well-functioning, dynamic market economy that generates lots of innovation and growth while adjusting to changing circumstances, because that's what enabled us to ride this out much more easily than if this had hit 20-30 years ago. That's a reflection of both the technologies that have been produced and the wealth we've had for providing relief to people who needed it.

So while certain people can look at coercive societies' ability to enforce lockdowns, the bigger-picture story is that our increasing wealth and prosperity have actually made us more resilient as a society — and those same creative tendencies are ultimately what got us out of it, since they helped us produce the high-efficacy vaccines that will end this pandemic.