



Special privileges for the vaccinated to address free riding?¹

If compulsion is not an option, can governments deliver the public good of herd immunity through market forces?

The mother of all externalities?

Climate change has often been called the “mother of all externalities” but Covid-19 must surely be running it a close second. What can be a greater negative externality than an exponentially spreading transmissible disease?

Dealing with externalities is a bread and butter activity for many economists, with the concept itself and what governments can do about it nowadays part of general knowledge as a result of the climate change debate.

Much of it is about balancing the rights of individuals and businesses with that of the wider society – the public good. For example, to protect the environment, governments have outlawed or regulated certain activities (e.g. polluting rivers), established markets which allow businesses to trade to derive at an efficient allocation of pollution across the economy (e.g. carbon trading) or come up with financial incentives to encourage consumers to act more responsibly (e.g. subsidising the purchase of electric vehicles).

An economist’s toolkit to deal with the Covid-19 pandemic

While economists have been concerned about Covid-19’s impact on the economy, the labour market and the government’s budget, the pandemic also offers an object lesson in policies to address externalities and free riding.

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By imposing lockdowns, governments have addressed the externality head on by outlawing certain activities. And with luck the vaccination programmes will help to eliminate the externality itself or at least its negative health consequences.

But just like with climate or the environment, there is a potential free-rider problem: if around two thirds of society need to be vaccinated to achieve herd immunity, might some people hope to benefit without being vaccinated themselves? With governments in many countries ruling out compulsion, what other options do they have to encourage immunisation?

“Nudging” is seen by many economists and behavioural scientists as a good alternative when compulsion is not an option. Nudges could be accompanied by financial incentives. Yes, it is possible that those who would have taken the vaccination anyway would receive a financial benefit for nothing but policy makers could still decide that such a policy is worth it if they believed that enough citizens could change their minds as a result. After all, the budgetary cost of the pandemic has already been so huge, another few hundred million or even a few billions might be worth it to get on top of it.

Another option would be for policy makers to allow market forces to shape decision making. For example, they could allow insurers to offer different insurance premiums to those with or without vaccinations – potentially a big issue for health and travel insurance. Or they could allow businesses to discriminate against customers or employees by vaccination status. To do so businesses would require information on an individual’s vaccination status - for sure a touchy issue.

Qantas, the Australian airline, has already announced that it would only carry passengers with proof of vaccination and other businesses can be expected to follow suit. And Pimlico Plumbers, the London-based home-maintenance business, is apparently contemplating [no jab, no job' work contracts](#)” for its staff. One could imagine hotels and restaurants opening again for customers who can show a vaccination record but not to others (those who cannot get vaccinated for medical reasons would obviously have to be exempt from such a rule).

Granting “special privileges” for the vaccinated could address the free-rider problem

What should governments do now? [Heiko Maas, Germany’s foreign minister, has suggested granting special privileges for the vaccinated now, just to be pushed back by some of his cabinet colleagues](#). Similar debates will be happening in other capital cities too. As long as vaccination programmes cannot meet the demand for all vaccinations, these issues seem academic and no “special privileges” should be granted to those who have received the vaccination. But the picture changes once the decision to take or refuse the vaccination is down to an individual rather than a lack of availability. At that point - and if take-up turns out to be too low to achieve herd immunity - policy makers will need to take a position on these issues. Offering “vaccination passports”, as suggested by the UK government, is the first controversial step in that direction. With some governments facing greater vaccination wariness in their societies than in others (France being one of them), we could see quite different policy responses in the months ahead. Watch this space.