

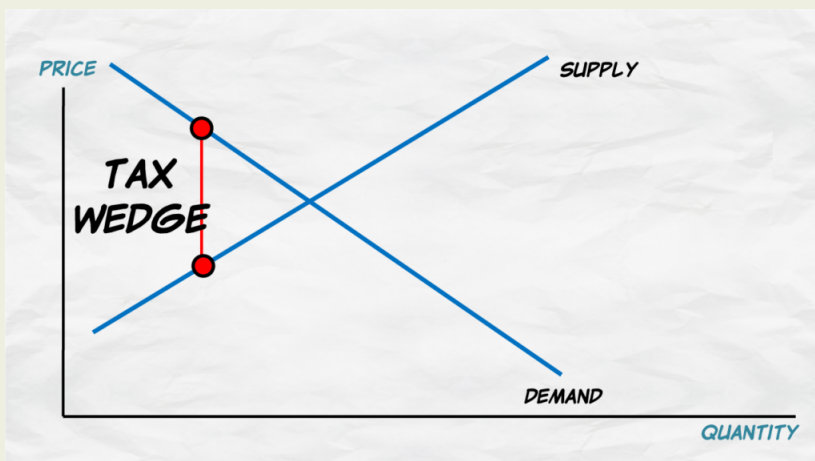
How Lockdowns Matter

How much do lockdowns really matter? Researchers recently noticed that behavior drastically changed before regulations did. Malone and Bourassa offer a provocative comparison in 538:

This sort of mass behavioral change in such a short time is significant. It took over 50 years and hundreds of billions of dollars in prevention efforts to lower the percentage of people who smoke in the U.S. from 42 percent in 1965 to 13 percent in 2018. Americans reacted to the threat of COVID-19 in a relative blink of an eye.

A reasonable point, but multiple caveats are in order.

1. Lockdowns can easily *prolong* behavior they did not initially cause. If the government stopped discouraging smoking, few people think it would mount a major resurgence in a year or a decade. But almost everyone thinks that people would start returning to normal life in a few months... unless draconian enforcement stops them.
2. Lockdowns clearly *amplify* behavioral changes. Look at Florida beaches: lots of people return the day the law changes.
3. The welfare cost of prohibition is *much* greater than the welfare cost of large behavior changes. Why? Because the suppliers and demanders most reluctant to change their behavior have the highest consumer and producer surplus! Thus, if only 20% of people would eat in restaurants if it were legal, the *value* of those few meals could easily be half the value in the market. Check out this textbook graph:



The triangle between the red “tax wedge” bar and the intersection of supply and demand shows the welfare loss of shrinking the market. Double the quantity reduction, and you multiply the welfare loss *four*-fold. In the real world, of course, the curves are rarely straight lines; instead, enthusiasts’ consumer surplus normally soars into the stratosphere.

4. The massive expansion of unemployment benefits and coverage greatly increases the sustainability of the lockdown; new limits on evictions and foreclosures do the same. So if the question is, “How much do emergency policies matter?” rather than “How much do lockdowns matter?” there can be little doubt that the answer is “a lot.” Most people simply don’t have enough personal savings to stop working for months without massive help from the government. And even many people who do have such savings wouldn’t want to burn through their assets for a marginal increase in safety.

What this means is that crisis policies make a big difference – for good or ill. People are taking many precautions voluntarily; but many other behavioral changes hinge on coercion and subsidies, especially after a few weeks of going corona-crazy.