

Reciprocal Externalities: A Refresher

A key insight of the Coase Theorem is that externalities are *reciprocal*. Yes, a polluter imposes a negative externality on his neighbor. But if the neighbor insists on clean air, he imposes a negative externality on the polluter. While common-sense morality may urge you to take the side of the neighbor, economic efficiency urges you to keep an open mind. If the polluter's cost of reducing pollution greatly exceeds the neighbor's cost of enduring pollution, the Coase Theorem tells you to tell the neighbor, "Tough luck. Suck it up."

This Coasean insight is deeply relevant to COVID policy. It's also been almost entirely ignored. Yes, people who don't wear masks impose negative externalities on others. But people who insist on masks impose negative externalities, too. Efficiency requires both sides to consider the burden they're imposing on the other.

Is the cost of wearing masks ever actually lower than the cost of enduring COVID exposure? Definitely. Suppose ten healthy young people all work in an office from 9-5 on weekdays. Once a week, an immuno-compromised senior citizen stops by for five minutes. The unmasked workers definitely impose a tiny negative externality on one senior. But if you require everyone to wear masks all the time, you impose a large negative externality on all ten young workers. The efficient outcome would probably be to tell the senior to stay home if he's nervous - not tell everyone else at the office to remain masked forty hours a week to accommodate him.

You might reply, "Forcing everyone to wear masks is inefficient, but we should still follow common-sense morality." I'm sympathetic, but is common-sense morality really on the senior's side? Not really, for two reasons:

1. **Voluntary assumption of risk.** Every job has problems, including a bundle of risks. The risks are unacceptable? Common-sense morality's standard reply is: "If you don't like your working conditions, quit."
2. **De minimis.** Even if you don't voluntarily assume a risk, common-sense morality says that the expected severity of harm matters. If the expected harm is trivial, you're free to inflict it. Example: I risk your life whenever I drive in your vicinity. You don't consent, but common-sense says I'm still entitled to drive. Why? Because the expected severity is low. You could protest, "Only because you're liable for any harm if it occurs." But in the real-world, imposing such liability is easier said than done. After all, a lot of people are judgment-proof. While you could heavily restrict the freedom of everyone who fails to post a \$1M bond, common-sense morality strongly condemns such measures as tyrannical.

To state the obvious, I respect not only the individual right to wear a mask, but property-

owners' right to require a mask as a condition of entry. But not only do I have a strong presumption against any stronger legal support for mask-wearing. I also think that informal norms should take Coase's notion of reciprocal externalities seriously.