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Indemnifying precaution: economic insights for regulation of a highly infectious disease

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ABSTRACT

Economic insights are powerful for understanding the challenge of managing a highly infectious disease, such as COVID-19, through behavioral precautions including social distancing. One problem is a form of moral hazard, which arises when some individuals face less personal risk of harm or bear greater personal costs of taking precautions. Without legal intervention, some individuals will see socially risky behaviors as personally less costly than socially beneficial behaviors, a balance that makes those beneficial behaviors unsustainable. For insights, we review health insurance moral hazard, agricultural infectious disease policy, and deterrence theory, but find that classic enforcement strategies of punishing noncompliant people are stymied. One mechanism is for policymakers to indemnify individuals for losses associated with taking those socially desirable behaviors to reduce the spread. We develop a coherent approach for doing so, based on conditional cash payments and precommitments by citizens, which may also be reinforced by social norms.

KEYWORDS: COVID-19, moral hazard, behavioral science, public health, incentives
INTRODUCTION

In the medium-term time horizon until a vaccine is developed, and perhaps thereafter, management of the COVID-19 pandemic will largely depend on broad behavioral changes at the population level. Under a strategy of social distancing, lockdown, or quarantine, individuals are directed or suggested to exercise precautions including staying home, closing businesses, wearing masks, and avoiding physical proximity to other persons.\(^1\) Presymptomatic patients are a reservoir for spread, but such precautions depend on them believing that spread is both important and preventable.\(^2\) Individuals have inherent incentives to undertake such measures, because they are self-protective, reducing the chance of the actor herself becoming infected and suffering. Accordingly, policymakers can expect a substantial degree of voluntary compliance, as long as the public receives, and believes, accurate information about the risk. That is, regrettably, a nontrivial assumption, but that problem is not our focus here.\(^3\)

Notwithstanding the self-protective effects of these measures, microeconomic analysis suggests a likely market failure, due to heterogeneity in the population. Part of the heterogeneity is biological—some individuals (eg younger persons and women) appear less likely to suffer harm from infection, whereas other individuals (eg older persons, men, and those with other medical conditions) face greater risk of harm if infected.\(^4\) The costs of precaution are also heterogeneous. For individuals who would otherwise be actively building careers or businesses, searching for romantic partners, or providing for dependents including children, the costs of staying at home are much more substantial, compared with others who are already retired from work, settled with spouses and partners, and no longer have dependents.\(^5\) Certainly, the consequences of loss of life are more dire for the younger as they have more years of life to lose. However, younger people tend to discount the future more heavily than older individuals and may not place much value on the additional years of life at risk.\(^6\)

Perhaps most important, the greatest risk to individuals in this younger group, particularly teenagers, is the loss of the social interactions through school, sports, and other activities that are essential to combat depression, among other risk factors for...
health. Suicide and suicide attempts in younger individuals dwarf the magnitude of risk from COVID-19, which makes the pandemic precautions particularly burdensome for this population, even if yielding spillover benefits for everybody else. Perilously, young people are starting to venture into ‘COVID-19 parties’ organized, so that people can mingle with infected people to get the illness ‘out of the way’ and carry on with life.

In rough terms, for the age gradient in particular, these observations suggest a stark misalignment of incentives—younger persons personally receive the fewest benefits from precautions, but suffer the greatest costs of taking them. On the margin, some individuals will see the personal costs of taking a precaution to be greater than the personal benefits. The heterogeneity in the population suggests a classic market failure, known in the law and economics literature as an ‘externality’. Those who do not comply with precautions disproportionately impose the costs of noncompliance on others, who are more likely to suffer from infection.

Similarly, for seasonal flu where vaccination is a primary precaution, the rate of vaccination in the 18–49 age bracket has not in recent years exceeded 35%, which is just over half the rate of older adults. In a recent survey, young millennials were the least well informed about influenza, and the most likely to believe anti-vaccine rhetoric. Accordingly for COVID-19, we can expect that for those who can get infected without bearing healthcare costs, suffering, or unemployment, precautions may seem unnecessary. This is especially true given that persons have private information about their preventive measures, but may not possess information about whether they are infected.

How can governments effectively regulate this situation in the complex environment of an infectious disease, like COVID-19? We make the nontrivial assumption that governments can promulgate policies about what activities may be optimal at a given point in time (ie whether to return to work), but we focus on mechanisms of compliance, recognizing that many micro-level decisions are difficult for the government to monitor, much less to enforce.

From a normative perspective, the goals are clear: to minimize the net harm to aggregate social welfare caused by the pandemic, accounting for both the public health losses (mortality and morbidity, and the costs of treating or suffering with the same) and the economic losses associated with taking precautions (lost wages and forgone consumption of welfare-enhancing goods and services). We generally assume, for the sake of argument, that certain levels of specific precautions are worthwhile from this social utility perspective. Yet, for the reasons just stated, the costs and benefits of taking those precautions are poorly distributed. We do not offer a normative theory of optimal distribution, but rather a behavioral one: how to align the costs and benefits of precautions so that the precautions will be sustainably undertaken.

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One mechanism to address that problem is for policymakers to indemnify individuals for losses associated with taking those socially desirable behaviors to reduce the spread. We discuss a coherent mechanism for encouraging the taking of costly precautions, which may also be reinforced by social norms.

INSIGHTS FROM HEALTH INSURANCE MORAL HAZARD
The concept of ‘moral hazard’ is that individuals are more likely to take risky or costly behaviors when those costs are borne by others. In health policy, most of the focus on moral hazard has been in the design of health insurance policy, using deductibles and copays, to insure that once ill or injured, a patient does not wastefully consume healthcare. That form of moral hazard is sometimes distinguished as ‘secondary’, or ‘ex post’, after the illness arises. Notwithstanding an overwhelming emphasis in health policy, the literature suggests that ‘ex post’ moral hazard is a relatively small driver of healthcare consumption for several reasons, including patients’ lack of agency in making many of their own healthcare choices in practice. Accordingly in the COVID-19 infectious disease context, where underconsumption is a greater risk than overconsumption, Congress provided that tests be covered without cost exposures and insurance companies have largely covered associated treatments.

In contrast, ‘primary’, or ‘ex ante’, moral hazard applies where individuals who have healthcare costs largely externalized to the insurance pool may undertake risky behaviors (eg smoking or skydiving) increasing chances of having an injury or illness in the first place. For health insurance design, primary moral hazard may have a relatively small effect on risk-taking behavior, because individuals personally suffer many of the other risks associated with illness or injury (including pain, suffering, lost work, chance of death). These other costs are likely more salient to a person selecting a risky behavior than is the fact that some of the healthcare costs will be insured.

For the policy of managing infectious disease, primary moral hazard is likely to be a more important driver of behavior where the chance of suffering any disutility whatsoever is heterogeneous. In this case, although the risk does not approach zero, it is as if relative youth provides partial indemnity insurance against not only the healthcare costs, but also the pain, suffering, lost work, and chance of death that are associated with COVID-19 infection.

Traditional health insurance policy has conceived healthcare as a cost when a risk materializes, but healthcare is often itself a precaution against a greater future risk. Baicker and colleagues have coined the term ‘behavioral hazard’ to refer to the

13 Mark V. Pauly, The Economics of Moral Hazard, 52 Am. Econ. Rev. 531 (1968).
15 See eg Andrew Mulcahy et al., Insurance Coverage of Emergency Care for Young Adults Under Health Reform, 368 N. Engl. J. Med. 2105 (2013).
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• This body of research in the health insurance domain demonstrates the more general phenomenon of how policy may strike the wrong balance, for example, if actors are biased away from optimal precaution-taking decisions, because the immediate costs of care (e.g., copayments for insulin) seem more salient than the longer-term costs (e.g., treating neuropathy for uncontrolled diabetes). Of course, that problem is exacerbated if the costs of precaution are so high that individuals simply cannot afford to take them, even if they would prefer to do so. Accordingly, the Affordable Care Act now requires coverage of certain preventive services without cost exposure at all—indemnifying the cost of precaution—an approach that may improve welfare and reduce spending overall.

INSIGHTS FROM AGRICULTURAL INFECTIOUS DISEASE MORAL HAZARD

In the recent past, few global diseases in human health have been comparable to COVID-19 with respect to the simultaneous level of transmissibility and pathogenicity. Yet policymakers are not ‘flying blind’. In other infectious disease contexts, moral hazard and risk-seeking behavior have been confirmed empirically. For example, in the UK, policymakers have struggled to manage an outbreak of bovine tuberculosis. The primary policy mechanism is a surveillance program, where agricultural agents visit farms and test animals for the disease. If it is discovered, the animal is killed, and the farm is put on a disease-restricted status (like a quarantine or lockdown) for 60 days. The farmers are able to take various costly precautions (e.g., maintaining fences, disinfecting trailers) to reduce the risk of infection. One might suppose that the risks of having beef purchasers reject infected meat, of having an infected animal discovered and slaughtered, and having the farm put on lockdown would be sufficient to induce optimal rates of precaution-taking.

However, the policy also includes a provision to indemnify the farmer for the loss of the infected animal that must be destroyed by law. Forthcoming empirical work shows that higher levels of indemnity may lead to higher rates of infection likely because farmers take fewer precautions when facing larger indemnities. In this case, the government has in part exacerbated the moral hazard problem, by paying an indemnity that lowers the farmer’s risk exposure, reducing the inherent incentive he would otherwise have to keep his cattle healthy. This indemnity is similar to the young, female, otherwise

25 See K. Aleks Schaefer, Daniel P. Scheirum & Steven van Winden, Cruel to be Kind: Moral Hazard in British Animal Disease Management (accessed June 4, 2020), (working paper on file with authors).
healthy human in the age of COVID-19, who may be less likely to suffer adverse effects of infection, and thus has reduced inherent incentives to take precautions.

As in human health, a farm experiencing a disease breakdown generates a negative externality for its neighbors through spatial disease transmission. By taking steps to minimize the likelihood of a breakdown on her own farm, the farmer also reduces the likelihood of infection for her neighbors. The indemnity payment relieves the farm of a portion of the costs of contracting the disease and, by doing so, reduces the incentive to invest in on-farm biosecurity. Consequently, not only do high indemnity rates lead to higher rates of disease, directly, by disincentivizing precautionary steps, but also the spatial feedback effect runs the risk of generating further infections in the surrounding area.26 Again, the example of animal disease management echoes the human experience.

**POLITICAL, LEGAL, AND PRACTICAL LIMITS TO OPTIMAL DETERRENCE**

In the agricultural settings, the unfortunate policy of indemnifying farmers against the costs of their failing to take precautions may reflect a constitutional, legal, or political limit to governmental enforcement. The payment of an indemnity may reflect a political bargain, allowing a relatively intrusive regulatory mechanism, such as mandatory testing, to be agreeable to the agricultural lobby, if accompanied by a payment from the treasury to offset some of the costs thereof.27 Similarly, under the US Constitution’s due process clause, the government must generally compensate individuals for ‘ takings’ of their property.28 Moreover, under international commercial agreements, businesses may enjoy a remedy against excessive regulatory interventions that cause economic injury.29

More generally, the US Constitution limits the powers of the state and federal governments to restrict certain liberties, but the Supreme Court has generally upheld reasonable public health interventions, especially in times of emergency.30 In the 1905 case of Jacobson v. Massachusetts, for example, the Supreme Court upheld a local Massachusetts law requiring smallpox vaccination.31 The courts have, however, struck down public health enforcement actions that were motivated by racial animus, or which were not appropriately tailored to the risks at hand.32

Nonetheless, the government has broad powers in this domain.33 Accordingly, to enforce orders for social distancing, or staying at home in particular, some governmental actors made strict orders backed by the coercive power of the state.

26 Id.
28 US Constitution, amend V.
32 Jew Ho v. Williamson, 103 F.10 (C.C.N.D. Cal., 1900).
On April 5, for example, police officers throughout the state of California began issuing citations for those who refused to close businesses or maintain social distance on beaches.\(^{34}\) If these sorts of citations, or more severe sanctions such as imprisonment, have a deterrent effect, they may solve the collective action problem.

However, deterrence theory suggests that to be effective, enforcement has to find the optimal mix between detecting noncompliance and then sanctioning it once found.\(^{35}\) For a rational actor, the risk of suffering the sanction is the product of these two variables. Although it may be relatively easy for the police to detect and enforce against business operators and beachgoers, it will be much more difficult to detect individuals who meet to have sex, for example. Similarly the war on illicit drugs has been stymied by such difficulties of detection.\(^{36}\) Whether such black markets can be kept small enough to keep infection rates at manageable levels, is a key question.

In this case, deterrence is also stymied by the realities of an infectious disease, such as COVID-19. Law enforcement typically employs escalating consequences for violations, starting with the threat of fines and culminating with imprisonment as the ultimate consequence short of death. Yet, fines may affect communities that have already been hit hard by the pandemic and are generally hard to enforce, when individuals have little or no funds to pay (a problem known as ‘judgment proofing’).\(^{37}\) Indeed, the power to fine is ultimately backed by the power to imprison those who refuse to pay.\(^{38}\)

Moreover, prisoners are particularly vulnerable to COVID-19 due to overcrowding, poor ventilation, unsanitary facilities, and poor access to healthcare services.\(^{39}\) Prisons easily become epicenters of disease, threatening the health and safety of the inmates as well as the surrounding community.\(^{40}\) Accordingly, on March 26, 2020, the Attorney General of the USA instructed the Federal Bureau of Prisons to transfer some eligible


\(^{40}\) Id.
inmates from prisons to home confinement.41 Some prisoners have reportedly even tried to get themselves infected, as a basis for then getting early release.42

Thus, governments are hamstrung in how they are able to enforce compliance with social distancing and quarantine requirements. Fines are regressive and imprisoning an individual violating quarantine guidelines would be counterproductive as they could introduce the disease into a particularly vulnerable population where the chance of spread is high. Governors and law enforcement agencies have dramatically reduced arrests.43 By May 2020, some local governments were already refusing to enforce ‘stay-at-home’ orders for political, ideological, or other reasons.44 Hence, governments will have to look beyond the threat of fines and imprisonment to compel compliance with precautionary measures.

These difficulties may explain why, in March and April 2020, the USA saw private actors merely encouraging people to take precautions, and even some governmental actors, such as state governors, who had the power to exercise the coercive role of the state, declined to do so, in favor of mere exhortation and encouragement.45 The literature on ‘private ordering’ and the broader literature on social norms, together suggest that individuals may provide socially desirable behaviors, even when it is not compelled to do so under strict rationality.46 Economics literature suggests the possibility of repeated interactions with individuals and the threat of social retaliation may be sufficient to establish and uphold social norms (ie ‘don’t burn bridges’).47 For instance, adherence to government recommendations to social distance may be achieved simply through the universal fear of loss of status or reputations if one is

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Vendors may also voluntarily embrace precautions to burnish their own reputations for safety. For COVID-19, government directives were initially crude—just a binary decision to allow businesses to remain open (if essential) versus mandate closure (if not). Yet, the market responded innovatively: in some ‘essential’ stores, there were no limits on the number of shoppers in the store, no systematic disinfection of carts or baskets or checkout counters, no masks or other protective equipment of store personnel, and the like. Conversely, some stores voluntarily created waiting lines outside the store, with tape demarcating 6 foot intervals, allowing entry into the store only with exit of another shopper, thoughtful distancing of carts from other shoppers on checkout, a designated position for the customer while items are scanned, and more. Stores may have enacted voluntary precautions in hopes of boosting business by being seen as a safe place to shop, reducing liability exposure in the event of infected employees, or simply to minimize the chance of disease spread for safety reasons. Eventually, governments may catch up to prescribing the sort of granular policies for managing COVID-19 as they have, for example, for handling food-borne illness in foods.49

Yet, reputational sanctions tend to work best when used against members within identifiable groups, such as a close-knit religious or ethnic community, but can cut against compliance of formal rules.50 In communities in which government authority conflicts with strong social norms or fear of loss of status or reputations, governmental orders can also be harder to enforce. It has been reported that an important factor contributing to the outbreak in South Korea included mistrust by a close-knit community.51

POTENTIAL SOLUTIONS

Economic and behavioral insights are powerful for understanding the problems inherent in managing a highly infectious disease, but what do they recommend as solutions? The overarching principle is to make it easier (ie less costly) for individuals to take reasonable precautions than to not take reasonable precautions.

In this essay, we are primarily focused on regulatory mechanisms prior to a vaccine becoming available. However, the American experience with vaccine mandates is illustrative of our economic and behavioral analysis so far. Consider a parent’s choice about whether to vaccinate her child prior to COVID-19. Her state may nominally require vaccination unless an exemption applies, but an indifferent or harried parent may find it easier to scribble her name on an exemption form rather than go to the hassle of finding a pediatrician, making an appointment, and securing the vaccination. Indeed, scholars have found that vaccination rates vary substantially depending on the proce-

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dure required to invoke such an exemption. For example, in 2011 Washington State implemented a requirement that parents have a counseling session with a physician prior to securing such an exemption, and exemption rates went down by 40%. In addition to any information delivered, these requirements function as behavioral speed bumps for the parent, with the inconvenience (ie non-monetary cost) serving to ration the scarce resource of non-vaccinated parents. In this way, the precaution is made less costly than not taking the precaution.

For COVID-19, when a vaccine is available, it may begin as a scarce resource to be rationed across many people desiring it, but once it achieves a certain saturation, there will likely remain a minority of persons who resist vaccination, unless properly incentivized. The USA has generally focused only on childhood vaccinations, but strategies for incentivizing adults will then be required as well. For example, participating in some valuable but risky activities, such as airline travel, could be conditioned on vaccine compliance.

Returning to our focus on the prevaccine era, in order to diminish the negative impact on the economy and citizens’ finances, some governments are considering issuing ‘immunity certificates’ to individuals who have recovered from the disease and are presumed to be immune from reinfection as well as unable to spread disease. These individuals with immunity certificates would then be able to re-enter society and resume their employment as well as patronize businesses and continue participating in the economy. Assuming that fundamental questions regarding immunity can be answered affirmatively by medical science, and that a technological solution can be employed to ensure validity over counterfeiting concerns, such a policy could then receive support in judicial review, as discriminating against those with and without immunity, not unlike the way extant and potential policies discriminate against those who are unvaccinated.

Still, this sort of certificate policy could backfire, especially as it creates an incentive to contract the disease—a ‘get-out-of-jail-free’ card, creating a risk of community spread, prior to the hypothesized benefit of immunity being secured. Intentionally seeking out disease like in the form of ‘COVID-19 parties’ has precedents in the form of ‘chickenpox parties’ in order to obtain immunity as a young child as well as the concept...

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52 Id.
57 See Robertson supra note 55.
of ‘gift giving’, the intentional transmission of HIV.\textsuperscript{58} Unless the infection is secured in controlled conditions (eg exposure followed by 2 weeks of quarantine), the net effects may be negative overall.

This analysis suggests that the immunity certificates policy could exacerbate the same moral hazard problem, which already discourages some people from taking reasonable precautions. This problem may be overstated, to the extent that individuals are already actively flouting stay-at-home orders, immunity certificates may do little to alter their private risk calculus toward less precaution.

Thus, the primary concern is the population on the margin, who otherwise would have abided by shelter-in-place and social distancing, but due to immunity certificates, will be tipped toward reckless behavior. Those who are extremely financially insecure, those who perceive themselves to not be at risk of serious adverse consequences of the disease, or those who believe contracting COVID-19 is inevitable have an incentive to eschew precautionary measures and seek out the disease in order to shorten the length of time they are out of work. This problem reinforces the more fundamental need, discussed below, to further indemnify individuals who are taking precautions, including through substantial increase in unemployment compensation, as already beginning in the CARES Act (discussed below).

Speaking more broadly, while the immunity card solution allows identification of individuals who are no longer disease susceptible, it fails to solve the primary imperfect information problem—identifying who is contagious. Expanded testing capacity and faster tests would allow for more direct targeting of the moral hazard problem. Improved testing would dramatically reduce the need for population-wide ‘shelter in place’ strategies. Under this scenario, quarantine restrictions could be limited only to individuals that test positive and their contacts.

This strategy imposes the economic costs of contagion on precisely the right individuals—those that are contagious. And unlike the immunity card strategy, it does not create a perverse incentive to become infected, but rather imposes the costs of quarantine on those who become infected. Note that such an analysis need not suggest that all individuals who become infected are in some way at ‘fault’ for having become infected (though some may have been, if they failed to take reasonable precautions to avoid infection). Once infected due to any cause, in economics jargon, the infected individuals generate a negative externality, and, thus, they are the appropriate population to be isolated.\textsuperscript{59} Regardless of the source of infection, it may then be unreasonable for such a person to engage in activities that risk harm to others. We also emphasize below that the individuals under targeted quarantine could be compensated for the private costs of quarantine through private or public insurance programs.

A test-and-quarantine strategy would allow the economy—susceptible and immune individuals alike—to resume normal life while actively and effectively mitigating the spread of the disease. Of course, this targeted quarantine strategy still requires


compliance with guidelines to stay at home on the part of the COVID-19-positive individuals. Compliance may be achieved more easily in this scenario as subjects of quarantine will know the restrictions are temporary. Additionally, because those quarantined have tested positive or come in contact with a positive case, they will face more severe social pressure to avoid contact with others.

However, unless widespread testing could be implemented and made mandatory (at least conditional on certain risky behaviors), other imperfections in the healthcare system confound this strategy. If tests were not mandatory, symptomatic individuals could simply avoid testing so as not to be detected as a positive case and removed from employment. For instance, those who are financially insecure and without any sick-leave program that would provide compensation during the quarantine period would have incentive to avoid the test to prevent loss of income.

For COVID-19 across all these particular policy tactics, the fundamental mechanism must be to reduce the costs associated with individuals taking precautions, so that the net individual cost of precaution is lower than not taking the precaution. The most costly form of precaution is to stay home from work. One obvious solution is to effectively indemnify persons who lose income due to lost work. Prior to the COVID-19 crisis, this was a weakness of US policy, compared with other industrialized countries, which tend to have robust provisions for paid sick leave and unemployment insurance. For people who actually lose their jobs, unemployment insurance in the USA pays for up to 26 weeks and is even then capped to cover only a portion of prior income.60 In one study, those receiving unemployment insurance only recouped half of their lost wages on average.61

The $2 trillion package passed by Congress in mid-March provides a one-time payment at about $2400 plus $500 per child for most families (and less or none for others).62 It is worthwhile that these payments went to both workers and nonworkers, because even nonworkers face substantial disutilities in complying with social distancing protocols.

However, for workers at least, the payments are far from sufficient to indemnify the costs of precaution: the median American family would need about $5000, to compensate for a single lost month of work.63 Additionally, the USA has increased weekly unemployment benefits by $600.64 Even with the increased weekly payment for the unemployed, the benefit may end in the near future and it does not scale with income to the detriment of those living in high cost-of-living areas.65 This suggests that

61 Id.
noncompliance will remain a very substantial problem (not to mention the substantial disutility suffered by those under the current income shock and the larger economic effects due to contraction).

Of course, with broader public spending on income replacement and broader compensation for taking precautions, someone must pay those costs. As younger persons today may be disproportionately taking precautions for the sake of protecting older persons (as we suggest in the introduction), it may not be sensible to use deficit financing, where younger persons would ultimately bear those costs. However, we set aside the point of intergenerational justice.

Behaviorally, it may be more sensible to distribute the burdens across current taxpayers more rationally. Current US tax policy is relatively flat, unlike the wartime era of the 1940s, when marginal tax rates went as high as 94% for the highest-income earners. We cannot here make a comprehensive case for the optimal tax policy, recognizing complications like tax avoidance. However, it remains true that wealthier individuals suffer less disutility for each dollar expropriated through taxation, compared with poorer individuals who suffer greater deprivations on the margin. This ‘diminishing marginal utility’ of money (as it is known in the economics literature) suggests a substantial opportunity to reallocate the costs of precaution to minimize the disutility. Most importantly, this special pandemic situation inverts some of the classic arguments against progressive taxation as undermining incentives to work. Here, the rush to get back to work may impose more social costs (in terms of infections) than social benefits (in terms of economic productivity).

In this way, government payments to those who are complying with social distance or quarantine protocols are designed to indemnify them against the costs of taking those prosocial precautions. Of course there is a risk of mismatch—people receiving the payments who are nonetheless not complying with distancing/quarantine guidelines.

To make the bargain more explicit, the payments could be made conditional on agreeing to comply with stay-at-home or social distancing orders. Given the extensive literature on the deep evolutionary basis of reciprocity for human behavior, we hypothesize (subject to testing) that such an explicit promise to comply as a reciprocal condition of accepting funds (a ‘carrot’ strategy) may have behavioral advantages over other (‘stick’) forms of enforcement, such as fines or imprisonment.

67 See generally, Joel Slemrod & Shlomo Yitzhaki, Tax Avoidance, Evasion, and Administration, in 3 HANDBOOK OF PUBLIC ECONOMICS 1423–1470 (Elsevier, 2002).
70 See generally, Martin A. Nowak, Five Rules for the Evolution of Cooperation, 314 Science 1560, 1563 (2006) (‘Perhaps the most remarkable aspect of evolution is its ability to generate cooperation in a competitive world.'
Our point is not about the cost of noncompliance (assume equal probability of detection and an equal-size penalty), and we are not suggesting a differential framing according to prospect theory (in both cases it may be framed as a loss conditional on noncompliance, rather than again). Rather, asking individuals to explicitly commit to compliance as a condition of accepting payment reinforces a social norm of compliance. Moreover, the breaking of the promise creates a cognitive dissonance, which itself may be experienced as a disutility. The explicit promise and size of these payments are likely to make them more effective than the sorts of small fines that may have perverse effects.

In addition to self-policing by people feeling motivated to keep their own promises, compliance may be buttressed by other members of the public shaming those who do not comply or even reporting them to authorities, because they represent not only a hypothetical risk for infection but also expropriation of public funds. In this way, the noncompliance can also be connected to standard law enforcement mechanisms, where an individual convicted of violating a legitimate order suffers revocation of the payment as a penalty, with full due process protections of course. Even with such a standard (rational) deterrence theory, the explicit promise to forfeit the funds upon noncompliance may make that risk seem more salient to the citizen and thus increase compliance.

Overall, these economic and behavioral principles suggest that to manage a pandemic prior to dissemination of a vaccine, policymakers should use conditional payments to encourage compliance with social distancing, stay-at-home, and quarantine directives. The key is to make compliance easier and cheaper than noncompliance, especially for those that would otherwise feel the greatest compulsion to not comply.

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Thus, we might add ‘natural cooperation’ as a third fundamental principle of evolution beside mutation and natural selection.’); Bolton, Gary E. & Axel Ockenfels, ERC: A Theory of Equity, Reciprocity, and Competition, 90 Am. Econ. Rev. 166–193 (2000) (developing a theory to explain a wide range of economic lab findings).


73 Thomas Baumgartner et al., The Neural Circuitry of a Broken Promise, 64 Neuron 756–770 (2009) (‘the breaking of the promise is associated with increased activation in the DLPFC, ACC, and amygdala, suggesting that the dishonest act involves an emotional conflict due to the suppression of the honest response’); Christoph Vanberg, ‘Why Do People Keep Their Promises? An Experimental Test of Two Explanations’, 76 Econometrica 1467–1480 (2008) (‘Numerous psychological and economic experiments have shown that the exchange of promises greatly enhances cooperative behavior in experimental games.... [New data finds] that people have a pref-erence for promise keeping.’)