

THE SMART MONEY

# Development of crucial vaccine is not to the credit of free markets

I'm a markets guy who believes in applying economic principles to situations requiring innovation and the allocation of scarce resources.

There are big downsides and limits to thinking like an economist, however.

The COVID-19 vaccine development and rollout is a case study for examining when free markets are specifically not useful.



MICHAEL TAYLOR

"Health care should be run

more like a private business" is one of the more misguided statements that well-meaning people like to

make — up there with "schools should be run more like a private business."

The miracle of this vaccine development and initial rollout

in one year cannot be understated. This is an unprecedented scientific achievement. It should be viewed not as a victory of market-based economics but the extraordinary application of central-government planning.

Last spring, the Trump administration made the correct call to fund six pharmaceutical companies to research, test and manufacture vaccines. The \$10 billion given to Operation Warp Speed

in March was upped to \$18 billion by October. A seventh company, Pfizer, didn't receive funds for research, but like the others, it did receive a guaranteed order for 100 million doses.

By guaranteeing demand for hundreds of millions of doses, the federal government induced drugmakers to essentially ignore potential risk, profit and loss. Operation Warp Speed under-

stood that some potential vaccines wouldn't work and that hundreds of millions of manufactured doses could be wasted. The free market is great for some things, but it would never have achieved this vaccine miracle in one year.

Vaccine development driven by the private sector historically happens in five to 15 years. We obviously didn't have that much

*Taylor continues on B7*

## TAYLOR

From page B1

time. Pharmaceutical companies with an unproven product and uncertain demand would never have ramped up to manufacture enough doses by early 2021. The federal government — everybody's favorite punching bag — made the correct choice to pay for it anyway, in the interest of speed.

Now, however, we see the limits of economic thinking when it comes to getting shots in arms.

For the next few months of the vaccines' rollout, we face a classic economics problem: too much demand and not enough supply. To vaccinate 80 percent of the U.S. population, we need more than 250 million doses (actually, double that, as the Pfizer and Moderna vaccines each require two shots). For now, however, we're living with the reality of severe shortages and registration websites that crash or fill up within minutes.

The vaccine is free, but there's not enough of it. Many of us expect to wait three to six months to get it. In the midst of severe scarcity, it feels like society is on a knife's edge.

We're looking for signs that some people are using money, privilege or connections to jump the line. In the coming weeks, the media will cover which celebrity, rich person or government official cut in line to get the vaccine. The "markets" solution to a situation like this would allow prices to determine who gets the scarce item. That would clearly be a moral monstrosity.

In a few months, we will have the opposite economic problem: too much supply and not enough demand. Back in December only 42 percent of Texans indicated they would sign up to get a vaccine. If a large plurality of Texans and Americans decline to get it, we may be unable to achieve the 80 percent herd immunity that public health experts say is necessary to stop the pan-

demic.

How would an economist solve that problem? I asked economist Robert Litan of the Brookings Institution, who says we should pay people a lot to get the vaccine.

"I think if you tell people \$1,000, and then especially for a family of four — that's \$4,000 — you're talking real money. And I think at \$1,000 you could get (anti-vaccine) people to switch," Litan said.

He also proposed that all citizens would be given, say, \$200 upfront, with a promise of the other \$800 when the United States achieved 80 percent vaccination.

As Litan explained: "So what that does is it gives tremendous incentives to tell your friends, whether in real life or on social media, to go out and get the shot, because then we can all get the money."

I love his idea. It would get us to herd immunity fast. It uses "market incentives" as a carrot to induce desired behavior. The \$300 billion or so it would cost would be a lot cheaper than the massive and complicated federal bailouts we've already resorted to.

Medical ethicists, however, hate this idea. Although small payments would be appropriate for the sake of convenience — such as transportation or a snack — the large payments suggested by Litan would be considered coercive. It is apparently not OK to ask people to choose between not putting something in their body and taking a payment of \$1,000. So there are ethical limits to applying an economic or markets perspective to the conundrum of vaccine rollout.

In sum, when it comes to our health, economic efficiency is not the right watchword.

Fairness and health outcomes are better guides. Enjoy your socialism, everybody.

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