

Markets helped us get through the pandemic — let them do their job

The private sector has been indispensable during the pandemic — developing vaccines, enabling us to continue working remotely, and adapting supply chains to home delivery. Clifford Winston (Brookings Institution) says governments must recognise and stop impeding their contribution.

The public's faith in both capitalism and the economics profession is at a low point. One reason is that neither appears to have done much to reduce the increase in income inequality that began in the 1970s. Another is that macroeconomists did not prepare the public for the Great Recession and could only partially soften its blow.

But this view is misguided. It fails to consider how markets contribute to addressing many economic and social problems that government policies have failed to address, as well as how markets have the potential to solve additional problems, especially if policymakers give them the freedom to do so. Indeed, markets have played an especially pivotal role in helping the public by mitigating the hardships caused by COVID-19, and they could play an even greater role in a future pandemic.

Both markets and governments make mistakes. The big difference is that inefficient government policies persist indefinitely, while markets have incentives to correct their inefficiencies given sufficient time, often by developing technological and product innovations. Consider the lack of intense competition and innovation in urban transportation. In most cities, taxis are regulated, and public transport is provided by the public sector, because policymakers believe that a free market in taxi and transport services would lead to financial distress, higher fares, and poor service. However, ride-sharing services such as Uber and Lyft and bike-hire apps have entered urban transportation markets and developed ways to “cooperate” with consumers and, often, public transport too, enabling consumers to receive a better combination of fares and service than taxis and public transport alone can offer.



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The revolution in information technology has significantly reduced the cost of searching, collecting, and distributing information about products, services, and workplaces. Cars are a well-known example where a consumer may be misinformed about the quality of a product. In the US, states have passed so-called “lemon laws”, where consumers who have purchased a hopelessly defective vehicle are given an opportunity, typically for one year, to request either a full refund or a replacement vehicle from the manufacturer. However, CarFax, a website that provides vehicle history reports on used cars and light trucks, including mileage and repairs, is more responsible for preventing consumers from buying a “lemon” than states’ “lemon laws.”

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Market forces also are effective in promoting social goals. For example, in response to legislators' proposals to limit the rights of lesbian, gay, bisexual, and transgender people, executives of leading corporations have signed letters urging repeal of such laws; have moved operations and events out of states that have passed anti-LGBT legislation; and have threatened to cancel projects planned for a state if it passed anti-LGBT legislation. Such corporate pressure has caused Georgia, South Dakota, Indiana, and Arkansas to withdraw or significantly amend bills that discriminate against LGBT people. In participation with the World Economic Forum, prominent business leaders are engaging in discussions on how to address LGBT discrimination around the world.

Facial recognition software, linked surveillance cameras, wireless devices, and drones are the latest technologies developed by the private sector and used by private firms and law enforcement to enhance public health and safety by detecting criminal behaviour and by apprehending criminals and terrorists. Households also are using surveillance technology to help reduce burglaries. Amazon's Ring and Google's Nest are internet-connected cameras that enable households to use their phone as a personal security tool. Of course, use of those technologies must be sensitive to the public's privacy concerns. For example, legal action has been taken in the UK against homeowners in dense residential areas because Amazon's Ring has picked up private conversations. Accordingly, owners of security cameras and doorbells should adjust them appropriately to respect neighbours' privacy.

If government removed its shackles, markets could help in more ways. For example, both counterproductive regulations of international airline markets and ocean shipping and occupational licensing of dozens of services limit competition that could flourish in free markets and reduce consumer prices. In the US, the dominance of Fannie Mae and Freddie Mac curtail competition provided by the private mortgage market that could increase homeownership and diversify risk. And the Education Department's near monopoly on student loans crowds out a potentially vibrant private student loan market, which could help reduce student loan defaults, interest rates on loans, and college tuition.

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As I discuss in my Brookings book, [Gaining Ground: Markets Helping Government](#), the same type of market forces that have improved transportation, information, and health and safety also have played a critical role to help the public by mitigating the costs of COVID-19. Markets have enabled supply chains to function more normally as trucks and rail freight continued delivery of e-commerce and brick-and-mortar stores' goods, essential industrial inputs, and critical products, including disinfectants, chemicals for medicines, and toilet paper. Home delivery services for food and healthcare items also have been significantly expanded.

During the pandemic, the internet has been an invaluable source of direct information and personal advice by facilitating virtual meetings with healthcare providers, business associates, and other professionals. Information technology has enabled some employees to work remotely and continue to be productive, so they can earn a living while maintaining social distancing. The technology sector also has played a vital role in enabling people to continue their formal education during the pandemic, by facilitating online teaching through platforms like Zoom and Teams.

Markets' most important response to the virus's threat to human health has been to synthesise prior research, conceive, and — with government financial support — bring to the market new COVID-19 vaccines in less than a year. Unfortunately, although some firms and government agencies have required their employees to become vaccinated, market forces have not been sufficient to induce the UK, and especially in the US, to achieve near-universal vaccination because of political sentiments and mistrust of government.

In the US, markets have also improved healthcare by sourcing and distributing protective equipment for front-line healthcare workers and the public, implementing testing and contact tracing for individuals potentially infected with the virus, and producing ventilators and therapies for seriously ill patients. In the UK, there has been more scepticism about the ability of markets to respond effectively to a health emergency without government support; however, the response in the US provides some cause for optimism.

In the future, innovations by the private sector that result in the deployment of autonomous cars, trucks, and drones can facilitate fast and reliable distribution of medical supplies and equipment, social distancing, and reduce disruptions to economic activity caused by a highly contagious virus, with less exposure for transport and delivery workers.

The public's faith in markets can be restored if markets are allowed to work effectively. To that end, government officials must recognise the contribution of markets, adopt policies that enable them to develop their limitless potential, and stop impeding markets' constructive contributions.

This post represents the views of the author and not those of the COVID-19 blog, nor LSE.