

Developing Economic Herd Immunity in the Face of a Pandemic*

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Abstract

Covid-19 is an aggregate productivity shock but the magnitude of the shock varies widely across sectors and households. As a result, it is also a shock to the *income distribution*. A second feature of the pandemic is that the virus creates a classic negative externality—greater economic activity spreads the disease faster but agents do not internalize this beyond personal health risk. Borrowing techniques from the optimal taxation literature, this chapter analyzes how these twin problems can be addressed using tax-transfer policies and economic incentives. I show that there is no conflict between efficiency and equity—policies which reduce the disease burden optimally must also redistribute from agents and sectors who have suffered relatively smaller losses to those who have been beset with big shocks. Lags in income assessment can be overcome by paying a universal basic income upfront and postponing tax liabilities. Even from a public health perspective, an egalitarian response to the heterogeneous impact of Covid-19 can be more effective than blanket measures like lockdowns coupled with fiscal conservatism.

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Key Words: pandemic, Covid-19, externalities, optimal taxation, income redistribution, universal basic income.

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