The Daily Dish

COVID-19 and the Market for Safety

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Eakinomics: COVID-19 and the Market for Safety

An annoying (to me, at least) aspect of the discussion surrounding legislation to address the COVID-19 recession is the notion that government action is the only way for the economy to recover. The economy will recover, people will get back to work, and life will return to more normal. It might just take a longer time (and more human suffering) than is palatable. The case for government intervention is to speed the pace of recovery.

A similar logic applies to the notion of hazard pay. The government does not have to legislate hazard pay – higher wages for those facing increased risks of infection, disease, and death. Employers have many incentives to make workplaces safe. Dating back to **Adam Smith** it has been observed that workers demand "compensating differentials" (wage premia) for the risks they face. The case for a (temporary) federal hazard pay is to accelerate the pace of any needed adjustment to the presence of the coronavirus.

But what would such a premium look like? Here is a rough cut at the magnitudes involved. In his survey of labor market responses to workplace safety, Kip Viscusi concludes, "Wage premiums paid to U.S. workers for risking injury are huge; they amount to about $245 billion annually (in 2004 dollars), more than 2 percent of the gross domestic product and 5 percent of total wages paid." His data also imply that blue-collar workers in moderately risky occupations would earn $82,780 (in current dollars) for each 1 percentage point increase in fatality risk. To benchmark the latter, note that as of yesterday, Johns Hopkins reported 164,690 fatalities from COVID-19 out of the population of 331,002,651 in the United States. Taking those figures at face value yields an average probability of fatality of 0.04975 percent. Translating that into a risk premium yields $4,118 annually or roughly $2.05 hourly.

That's a long way from the proposal in the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act that called for a $13 an hour pay increase for certain essential workers: "A $25,000 pandemic premium pay increase for essential frontline workers, equivalent to a raise of an additional $13 per hour from the start of the public health emergency until December 31, 2020." It is one thing to accelerate an adjustment; it is another to radically overshoot.

Of course, the probability of infection, disease, and fatality may be higher in key occupations than the overall population average. That seems especially likely to be the case for the initial weeks of the pandemic. But over time, employers could undertake extra sterilization, additional ventilation, and more personal protective equipment to lower that probability – this is another manifestation of the way labor markets adjust to workplace risks.

On the other hand, perhaps $2 is in the right ballpark. Private employers have instituted a variety of special pay provisions in the face of the pandemic (some of which were temporary): Amazon had $2 per hour hazard pay, Target had a $2-an-hour increase, and Starbucks had a temporary pay bump of $3 an hour.

Needed labor market adjustments to new conditions are not instantaneous, but they will occur. For that reason, the longer the pandemic persists, the less I worry about hazard pay.