

Uncertainty, risk and trust – early microeconomic impacts of COVID-19

By Alexandra Lobb, NSW WEN Chair and Principal, ACIL Allen Consulting.

Article #3 of the NSW WEN fortnightly blog series in partnership with the NSW Economics Society of Australia and the National WEN.



Understanding why people make the decisions they make is something that intrigues me. Economics is based on the construct of rationality which in its simplest form is all about maximizing value for money given our preferences and prices. But we all know that there is lots more to why we buy the things we buy than price and rationality.

There was no need to buy lots of toilet paper when COVID-19 became a reality, why would we expect a shortage of supply? It might have been more rational if COVID-19 was a stomach flu, or if toilet paper was an imported good. So what made Australian consumers behave in this way? In my opinion it is all linked to information and communication (or lack thereof) and its interface with risk, uncertainty and trust.

Uncertainty is a big word – it encompasses a lot. In its most rudimentary form it is the unknown, unknowns. Our ability to deal with it either as individuals or a society is relatively crap (and crap, is of particular concern when there is a toilet paper shortage!).

There seem to be several schools of thought about how ‘uncertain’ an event like COVID-19 is. In fact COVID-19 was a risk, we knew it was possible. There were signs and signals all over the place, if you knew where to look. There were plans developed long ago for how to deal with influenza pandemics. Our government literally had a Pandemic Plan in its back pocket. And credit to it.

(see:

[https://www1.health.gov.au/internet/main/publishing.nsf/Content/519F9392797E2DDCCA257D47001B9948/\\$File/w-AHMPPI-2019.PDF](https://www1.health.gov.au/internet/main/publishing.nsf/Content/519F9392797E2DDCCA257D47001B9948/$File/w-AHMPPI-2019.PDF))

But what was uncertain (and still is) was how (in time and space) the disease would spread, the health impacts and the socio-economic effects from our policy approach that COVID-19 will have in both the short and the long term. Because unlike the Pandemic Plan – there is no documented ‘What Happens Afterwards Plan’. Now we are dealing with real uncertainty, and that requires having many irons in the fire, being flexible and adapting over time.

What we also find is that communication around the provisions the government has put in place were not up to scratch. The decision makers have more information about the virus and its Pandemic Plan than the public have. In economics this is called asymmetric information and it’s a market failure and reason for intervention of some form or other, to allow people to make ‘better’ decisions.

Asymmetric information is relatively commonplace. Generally speaking most decision makers have access to more (and better) information than the general public. However since the advent of the internet and social media in the 1990s we now have misinformation coupled with asymmetric information. This can make our decision making even more complicated. We all have access to information. Our sources will be different and our interpretation will clearly be different. So how could Australians have been able to make better purchasing decisions in those early days?

The government could have informed us of its preparedness, including educating and informing us about our supply chains and its resilience. That would have provided some comfort (and meant that our supermarkets didn’t run out of toilet paper). On the flip side that does requires us to trust.