Milton Friedman Is to Blame for Unsafe Food? It Just Ain't So!

BY ARTHUR E. FOULKES

There is a "food safety crisis" in America and Milton Friedman is to blame, Princeton University economist Paul Krugman wrote on the *New York Times* op-ed page May 21. Friedman is responsible, Krugman wrote, because he legitimized a "sickening ideology" that rejects "even the most compelling" cases for government regulation of business.

Krugman's "crisis" stems from several recent incidents with tainted food, including *E. coli* in spinach in 2006, which led to three deaths and several illnesses; salmonella in peanut butter; and melamine in pet food. More recently, food imported from China has caused concern.

He believes the government needs to guarantee food safety because market forces alone cannot. His case, however, both understates the ability of the market to provide food-quality assurance and disregards or ignores important arguments against relying on the government for this purpose.

Krugman writes that "the economic case" for government food-safety regulation is "overwhelming" because people buying food know much less about its quality than sellers do. This is the "asymmetric information" argument common in market-failure literature.

Yet asymmetric information problems are not unusual. For example, when I am hired, I know more about my work habits than the person doing the hiring. When I purchase auto insurance, I know more about my driving skills than the insurer. When I buy a lamp, I know far less about its quality than the manufacturer. Yet despite all this, somehow we engage in mutually beneficial exchanges every day.

Indeed, the existence of asymmetric information creates a market for assurance services that entrepreneurs quickly fill. Examples of private means of assurance range from neighborhood gossip to trusted brand names to Underwriters Laboratories to *Consumer Reports.* Brand names provide an informal means of quality assurance that companies and consumers are willing to pay for. Likewise, middlemen, such as department or grocery stores, also provide a reputation-conscious source of quality assurance that both consumers and producers are willing to pay for.

Food may be potentially more dangerous than many other goods, but this fact only adds to the incentives for private assurance. Indeed, a downside to using the government for food-quality assurance, such as the Food and Drug Administration (FDA), is that it makes consumers less conscious of food safety in general. Furthermore, the existence of the FDA "crowds out" private (and more creative) assurance providers that would certainly emerge in its absence.

Krugman worries about Americans buying so much food from abroad, pointing out darkly that FDA inspectors check only a tiny percentage of the imports. This leaves the American consumer "dependent on the quality of foreign food-safety enforcement," he writes.

Yet government food inspectors are not really the only source of quality assurance for imported food. Even though Krugman dismisses this point in his piece, sellers of imported food really do have an important incentive to avoid making their customers sick.

"The food industry bristles at the notion that a greater diversity of foreign ingredient suppliers could

Arthur Foulkes (arthurfoulkes@hotmail.com) writes about business and economics for the Terre Haute Tribune-Star *in Indiana.*

increase risks for consumers," the *New York Times* reported on June 16. "Executives at food companies say that they willingly bear the burden of ensuring the safety of their suppliers' plants and products." The same article quotes an executive at Sara Lee saying, "[Food safety is] on us. We can't sit around and wait for government to iron these things out."

Of course, it is always possible for bad food to reach consumers. There will always be accidents and negligence in any human endeavor. Nevertheless, to dismiss the fact that companies have an incentive not to harm their consumers and imply that only government officials can do this, as Krugman does, is to leave out an important part of the food-safety picture.

Krugman also writes that corporations are at fault in the food crisis, citing salmonella contamination in ConAgra peanut butter that came to light in 2005. Krugman also notes that ConAgra officials, during a surprise two-day FDA inspection prompted by an anonymous tip about the contamination, refused to hand over company documents without a written request from the FDA.

While this certainly shows corporations can have food-safety problems, it may not be a persuasive case of corporate irresponsibility. ConAgra detected the salmonella during its own routine inspections and, a spokeswoman told me, none of the contaminated peanut butter ever left the company's control or reached consumers.

As for why ConAgra refused to hand over documents without a written request, the spokeswoman said it wanted to be sure it handed over all the requested information and to keep any of its "proprietary information" from becoming part of the public record.

Some people will see something sinister in anything a corporation does, but in this case at least, the company seems to have responded effectively to the problem and acted reasonably when dealing with a surprise government inspection.

It is not unusual for business people to seek government regulations, nor does this demonstrate that the sought regulations are in the public's interest.

Industry Wants Regulation

Krugman also blames the Bush administration for the food crisis because it refuses to regulate private industries even when they ask for it. He quotes the president of a food-industry group calling for stronger government regulations.

Yet it is not unusual for business people to seek government regulations, nor does this demonstrate that the sought regulations are in the public's interest. Often business people want regulations to cripple competitors or restore public confidence at taxpayer expense. The Meat Inspection Acts of 1891 and 1906 provide good examples.

Refrigeration changed the meatpacking industry dramatically in the late 1800s, allowing large centralized packers in Chicago to offer meat in greater quantities and at lower costs than before. Threatened by the new competition, smaller local slaughterhouses began to claim the Chicago packers were unsanitary. Demand for meat fell (along with prices)—leading the industry to ask for federal regulations to restore public confidence. (See E.C. Pasour, Jr., "We Can Do Better than Government Inspection of Meat," *The Freeman*, May 1998.) The result was the Meat Inspection Act of 1891.

A similar situation led to passage of the Meat Inspection Act of 1906 as well. As Lawrence Reed has written, big meatpackers "got the taxpayers to pick up the entire $3 million price tag for [the Meat Inspection Act's] implementation." They also got new regulations placed on their smaller competitors. ("Of Meat and Myth," *The Freeman*, November 1994.)

Finally, Krugman's essay overlooks an important economic argument against the FDA itself. Economists have long understood that because of the perverse incentives its employees face, the agency weighs decisions heavily on the side of caution. As a result, it has often kept lifesaving drugs and products off the market at the cost of many thousands of lives.