

Waiting for the Invisible Hand: Brand Names, Habit Formation, and Delayed Resolution of Uncertainty in the Modern Market for Food

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 - unsurprising? (Eaton *et al.* 1997)



A Market Failure?

- Pollan's (2008) advice: **opt out**
 - "Don't eat anything your great grandmother wouldn't recognize as food"
 - "Avoid food products containing ingredients that are a) unfamiliar, b) unpronounceable, c) more than five in number, or that include d) high-fructose corn syrup"
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- Question: Does the U.S. market for food provide *efficient* levels of nutritional quality?



Unobservable Quality

- We consider the possibility that credence aspects of foods that affect *long-term health outcomes* might be causing a 'lemons'-style market breakdown (in which only low-quality goods are traded).
- A necessary condition is that quality be *unobservable*, even after consumption. Is this true of processed foods?
- Darby & Karni (1973):

Credence qualities arise whenever a good is utilized...in combination with other goods of uncertain properties to produce measurable output.

- Here, output is long-term health outcome; inputs are foods ingested in prior years.



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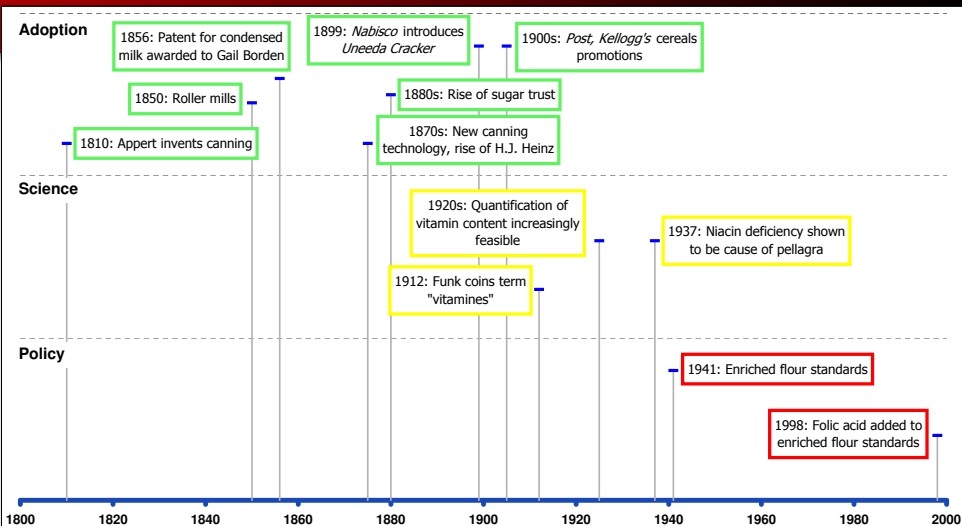
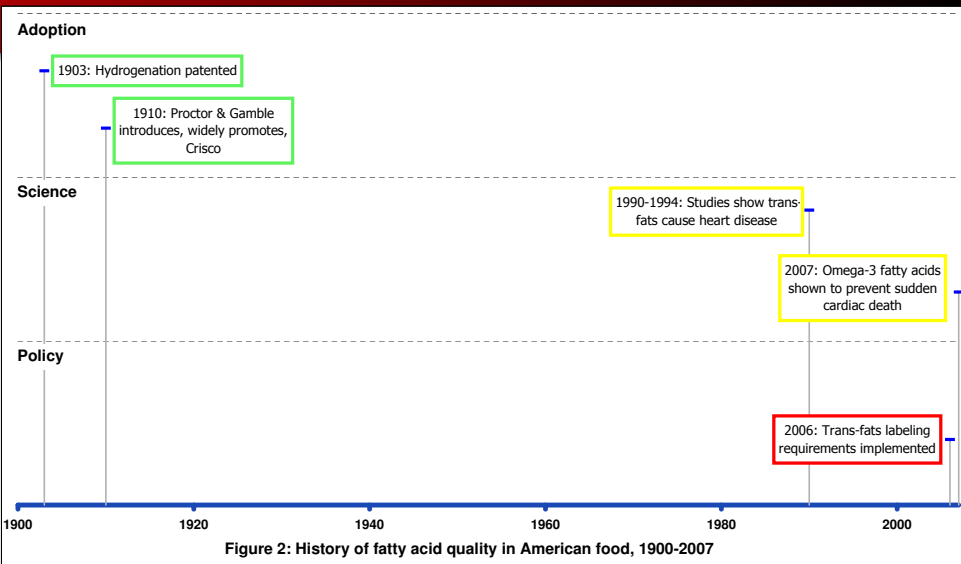
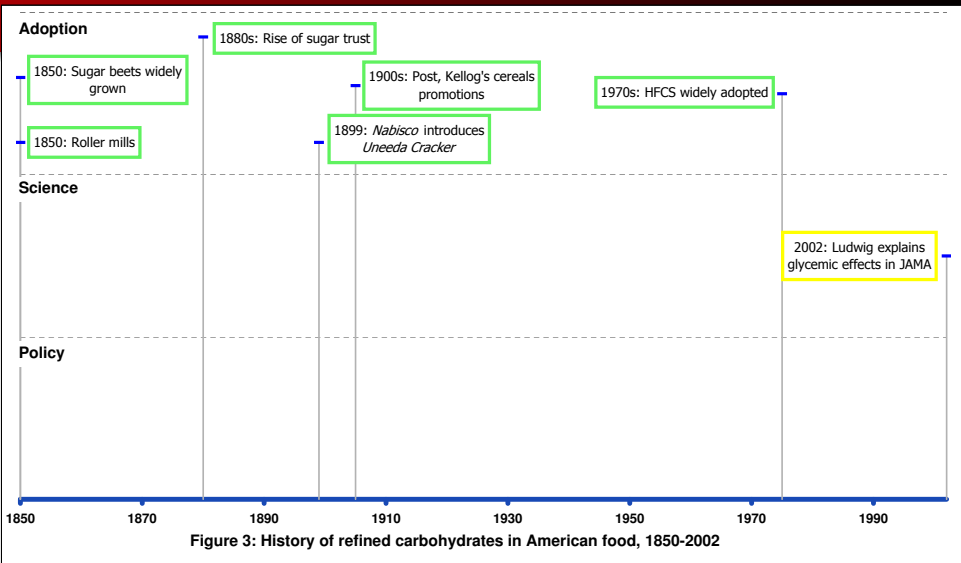


Figure 1: History of vitamin deficiency in American food, 1800-2000





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traditional foods are non-proprietary.
- So there is reason to believe market under-provides “healthy” foods.
- Maybe “opting out” isn’t such bad advice... But a more efficient outcome would resolve the credence problem.



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- 1973: FDA rules “imitation” products *no longer need be labeled as such*.
Large food processors back the move.



Conclusion: Two Principles

Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. –Adam Smith (1776)

...the restoration of biological normality by the removal of an abnormal exposure (e.g., stopping smoking, controlling air pollution, moderating some of our recently-acquired dietary deviations); here there can be some presumption of safety. –Geoffrey Rose (1985)

In light of history (and economic theory), we propose two broad principles for evaluating policies (labeling standards, grading, certification) aimed at facilitating market provision of foods beneficial to long-term health:

- 1 Consumers first. Choose policies that facilitate discrimination among gradations of (nutritional) quality in processed foods. Avoid policies that discourage competition from small producers.
- 2 Err on the side of the natural. When nutrition science is uncertain, provide information about “extent of processing” likely to impact health.

