

The Food Inspection System Needs Improvement: Who Pays For It?



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The recent salmonella outbreak traced to a Peanut Corporation of America (PCA) plant, last year's *e. coli* outbreaks in fresh vegetables, and numerous meat recalls have underlined the need for an improved food inspection system in the US. To remedy the problems individuals from Rep. Rosa DeLauro of Connecticut to Secretary of Agriculture Tom Vilsack have called for the establishment of a single food inspection agency to replace the fragmented system that presently exists.

We have seen what can happen when the system breaks down and tainted product reaches the marketplace. Demand for peanut butter fell following news of the problems at the PCA plant. This spring peanut farmers are left wondering if demand will recover sufficiently for it to be worth their while to plant peanuts this year. Before one of last year's *e. coli* outbreaks was finally traced to Mexican-grown raw peppers, acre upon acre of California tomatoes went unpicked as consumers reduced their purchases of fresh tomatoes.

Even worse than the economic impact on producers is the death and illness attributable to tainted food.

It is in light of the impact of tainted food on consumers that we view the administrations proposal for "imposing new fees for government inspection activities" (<http://www.cbo.gov/ftpdocs/100xx/doc10014/03-20-PresidentBudget.pdf>) with some concern.

Our concern is not with improved food inspection services – they are needed badly – but rather with the means by which the government funds these inspections. Such a move to raise user fees has been one way that governmental units have been able to avoid tax increases. The argument is that the costs of these services (as diverse as parks, garbage collection, boat launches, and the issuance of patents) ought to be borne by the beneficiaries of such governmental activities.

The question when it comes to food inspection is who is the beneficiary – the producer, the processor, or the consumer?

When some have attacked the level of agricultural subsidies in the US, the cost food inspection system has been included as one of those subsidies. In the calculations of those analysts, producers have been seen as the primary beneficiaries of the food inspection process.

When one looks at peanut producers this spring and tomato growers last year, it is clear that farmers have a vested stake in a well-functioning food inspection system that protects their markets. From that perspective it would be easy to conclude that farmers ought to be charged for the inspection of their agricultural output.

Looking at the food recall losses that have been incurred by the processors of tainted agricultural products, it would be easy to argue that they should pay the costs of the food inspection system. And in many ways they already pay part of the cost, with certification programs and the expense of complying with food safety regulations.

The same is true of many producers. All one has to do is look at the equipment one sees in a modern dairy barn to realize that food safety does not come free – the simple cream can is a relic of the past.

One of the rationales of a publicly funded food inspection system is the argument that the ul-

imate beneficiary in neither the producer nor the processor; it is the consumer. When a service is a public good as opposed to a private good and the complexity of allocating the costs among the many beneficiaries and the collecting of those costs is disproportionate to the cost of the service itself, there is a solid argument for public funding.

When tax dollars pay the salaries of food inspectors and all other direct costs of a food inspection system, inspectors are beholden to no one person or group but to society at large. In theory, the same should be true if user fees provide the funding for government inspectors.

But suppose in addition to using user fees rather than tax dollars, the inspection service is outsourced to the private sector. Further, suppose the ones paying the user fees for the inspection system are the same folks who run the operations that require inspection.

In (usually rare) instances, opportunity fuses with motive and disaster strikes. PCA paid a fee to be a part of a private certification program and in turn the inspector called them up to notify them ahead of time of an inspection visit. Had they not received this consideration, PCA could have pushed for a change in the inspector.

By bearing the costs of the inspection program, PCA had every incentive to mold it so as not to disrupt its operation instead of the steadfastly ensuring the food safety needs of the public at large.

Such outsourcing can give rise to incredible behavior. Reports are that PCA had previously received laboratory reports that showed salmonella contamination; they just did not tell the authorities about the tests.

Meat inspection at large slaughter houses is another example of a less than direct linkage between the inspection system and food safety assurances to the general public. In this case, the slaughter plant is responsible for setting up its own sanitation and food safety standards and for implementing those standards.

Federal inspectors read the written plans and the implementation logs but they do not inspect "on the line" in the manner that they once did. Thus, the inspectors can vouch for the completion of paper work but they do not make food safety claims about specific meat leaving the plants.

Certainly the general public is the ultimate beneficiary of a food inspection system. The argument for using tax dollars to support it is compelling.

If the general public is unwilling or unable to adequately fund a comprehensive food inspection system, the second best approach may involve charging user fees. The question then is who should be charged the fees.

One way to minimize conflict of interest would be to collect the "inspection fee" at the point of final sale. Food consumers could pay a small inspection fee, sort of like a sales tax, at the retail level. At least that way the inspection agency does not become captive of the interests of the processors.

Yes, there would be collection costs that would add to the overall cost of the inspection system.

That brings us back to the first-best approach of an adequately-financed, taxpayer-funded public inspection service. △