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Does self-regulation sufficiently protect consumers? (Pro)

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Investigation into the crashes of Boeing 737 Max planes has revealed that the actual task of air-worthiness certification was made by Boeing employees rather than government inspectors. Does such corporate self-certification sufficiently protect consumers? Let me first introduce some general claims about safety, markets and regulation before addressing the question of administrative delegation.

How safe should products be? People's preferences about risk vary. Some people are risk averse and others are not. Some people would refrain from using a drug until it has undergone clinical trials, while others would simply accept recommendations from friends and relatives.

Markets can accommodate all these possibilities simultaneously. One firm can sell something with evidence of safety, while other firms can offer things for sale without such evidence. Underwriters Laboratories and kosher certification are examples of the private provision of evidence of quality. Consumers can choose the combination of price and safety that they prefer.

If markets can provide differentiated safety and quality outcomes, why does government intervene? An important component of the answer is that companies use government assurance of quality through regulation to reduce competition over price-quality tradeoffs and consumers' attention to such tradeoffs. If consumers think that everything for sale has been approved by government as safe, it severely reduces the incentive for companies to differentiate themselves by investing in quality and safety assurance. Under a laissez faire approach, firms would have to work harder to earn consumers' trust.

In the last decade, lead paint was discovered on children's toys imported from China. Toy suppliers did not respond by shifting to U.S.-made toys that emphasized quality and safety in return for a higher price. Instead, they requested that the Consumer Product Safety Commission increase its regulation of the industry. They used regulation to convince the consumer not to think about price-quality tradeoffs.

In this context, how should we evaluate the delegation of compliance to the employees of Boeing? Staffing a public safety organization with scientists or engineers to comprehensively evaluate and second-guess every design decision would be prohibitively expensive. And because the organization would face scrutiny only if bad outcomes occur, it would always recommend more safety rather than an amount of safety for which the public would actually pay. Thus, delegation allows “regulation” to survive by reducing its cost and actual effect on outcomes. In this attenuated form, “regulation” is closer to laissez faire than the public realizes, but without any of the scrutiny firms would face under explicit laissez faire: the best or worst possible outcome depending on your views on markets and regulation.

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