How Free Markets Keep Us Safe

Despite what politicians may preach, regulation actually does a poor job of promoting health and safety compared with the free market.

By: Daniel J. Mitchell - October 26th, 2012

The most compelling case for government regulation is that all its costs are worthwhile since it protects and promotes the health and safety of the population. Without the plethora of rules, commands, and orders from D.C., we are told that companies would poison our food, build dangerous products, and leave us endlessly vulnerable to all sorts of additional risks.

But in reality, regulation is a hidden tax that hinders the productive sector of the economy. The rules, red tape, mandates and other forms or regulation are akin to the grit and grime that slow an engine's performance.

Bad Products and Practices Are Unprofitable

Risk is a part of life. Every day, unless we live in a bubble, we are gambling with our lives. There is a greater-than-zero chance that we will die in an accident on the way to work, get crippled by an unsafe product, fall from the sky in a doomed plane or suffer from exposure to dangerous chemicals.

In some cases, people have the ability to independently assess risks. We understand there's some risk every time we get in a car, but we also know there's a very low probability of a bad outcome and we have at least some ability to protect ourselves by driving safely.

In other cases, however, it is difficult—or even impossible—for the average consumer to gauge safety. Are we flying on a well maintained plane? Are we eating food that is free of salmonella and botulism? Is our workplace protected against dangerous machinery? Are our children vulnerable to chemical exposure?

Since the vast majority of people have no way of answering these questions, we shouldn't be surprised that many of them want some sort of independent oversight—especially since they suspect that businesses will be tempted to cut corners. After all, less money spent on health and safety means more profit for shareholders.

Those are appropriate concerns, but it’s also important to understand that the desire for profits creates a big incentive for businesses to use good practices while producing safe and effective products.

Imagine you’re the CEO of a major airline, and one day all the regulatory agencies disappear. Are you going to stop maintaining your planes? At the risk of stating the obvious, the answer is no. One disaster could be the death knell for an airline, particularly if there were the slightest hint that the company was skimping on upkeep.

Moreover, it’s highly unlikely that investors would plow money into an airline when share value could disappear overnight because of an accident. And banks presumably would be leery about lending to an airline that faced the risk of quick bankruptcy. Moreover, insurance companies would have a very strong incentive to monitor the safety practices of the airline— and keep in mind no bank would lend money to an airline that lacked insurance.

In other words, the competitive marketplace can be viewed as a very effective form of regulation. Instead of rules and red tape from Washington, the profit motive creates mutually reinforcing oversight.

Some critics will assert the opportunity for a quick buck might trump private forms of regulation. But the people pushing this type of argument apparently don’t understand the incentives of investors. Yes, shareholders and bondholders want companies to make profits, but they also want to protect their underlying investments.

Only a very stupid investor would grab for $1 of quick profit when it mean risking $50 of wealth. In the airline example, skimping on safety might improve the bottom line for a year or so, but the short-term additional profits wouldn’t mean much if it resulted in a disaster that wiped out the company, pushed share prices to the basement and forced the airline into bankruptcy. …