

Powdered Danger: Economic Impact of Product Recall

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In 2003, the German company Humana, which was marketed in Israel under the label Remedica, changed its soy-based formula for infants aged 0-12 months. The direct effects were devastating: death of several infants and permanent damages for others. Following these tragic events, Remedica's sales fell and the company was eventually closed. Over the years the nation-wide media has continued to cover the traumatic scandal. We use the Remedica scandal as a natural experiment to explore the market response to information embodied in recalls by measuring consumption of baby food, including infant formula, and mothers return to the labor force. Based on data from the Israeli Household Expenditure Survey, we find a drop in the share of households who buy baby food, and a coinciding delay in the return of mothers to the labor force in the following years after 2003. The findings suggest that recalls of certain products may have spillover effects on their markets and even on the labor force. The data also reinforces the link between breastfeeding and the mothers' labor force. More generally, exploring the implications of product safety threats is a first step in designing policies to alleviate them.