

Commentary 1

Title of the article: *Australia would save \$3.4bn if junk food taxed and fresh food subsidised, says study*

Source of the article: The Guardian

<https://www.theguardian.com/australia-news/2017/feb/15/australia-would-save-34bn-if-junk-food-taxed-and-fresh-food-subsidised-says-study> (Accessed 15 February 2017)

Date the article was published: 14 February 2017

Date the commentary was written: 14 March 2017

Word count of the commentary: 800

Unit of the syllabus to which the article relates: Microeconomics

Key concept being used: CHOICE

Article

Australia would save \$3.4bn if junk food taxed and fresh food subsidised, says study

Health experts tout health gains of taxing saturated fat, salt and sugar and subsidising fruits and vegetables, with no dent on household food budgets

Australian researchers say subsidising fresh fruit and vegetables would ensure the impact of food taxes on the household budget would be negligible. Photograph: Dave and Les Jacobs/Getty Images/Blend Images

Tuesday 14 February 2017 19.44 GMT Last modified on Tuesday 14 February 2017 19.46 GMT

Health experts have developed a package of food taxes and subsidies that would save Australia \$3.4bn in healthcare costs without affecting household food budgets.

Linda Cobiac, a senior research fellow at the University of Melbourne's school of public health, led the research published on Wednesday in the journal Plos Medicine.

Cobiac and her team used international data from countries that already have food and beverage taxes such as Denmark, but tweaked the rate of taxation and also included a subsidy for fresh fruit and vegetables so the total change to the household budget would be negligible.

They then modelled the potential impact on the Australian population of introducing taxes on saturated fat, salt, sugar and sugar-sweetened beverages, and a subsidy on fruits and vegetables. Their simulations found the combination of the taxes and subsidy could result in 1.2 additional years of healthy life per 100 people alive in 2010, at a net cost-saving of \$3.4bn to the health sector.

"Few other public health interventions could deliver such health gains on average across the whole population," Cobiac said.

The sugar tax produced the biggest gains in health, followed by the salt tax, the saturated fat tax and the sugar-sweetened beverage tax.

The fruit and vegetable subsidy, while cost-effective when added to the package of taxes, did not lead to a net health benefit on its own, the researchers found.

A co-author of the paper, Prof Tony Blakely, said this was because although a fruit and vegetable subsidy alone would encourage people to eat more fresh foods, previous studies of consumer behaviour had found they would spend the money saved on sugary foods.

The researchers suggest introducing a tax of \$1.37 for every 100 grams of saturated fat in those foods with a saturated fat content of more than 2.3%, excluding milk; a salt tax of 30 cents for one gram of sodium above Australian maximum recommended levels; a sugar-sweetened beverage tax of 47 cents a litre; a fruit and vegetable subsidy of 14 cents for every 100 grams; and a sugar tax of 94 cents for every 100ml in ice-cream with more than 10 grams of sugar per 100 grams; and 85 cents for every 100 grams in all other products. The taxes exclude fresh fruits, vegetables, meats and many dairy products.

“You need to include both carrots and sticks to change consumer behaviour and to encourage new taxes,” Blakely said. “That’s where this paper is cutting edge internationally.

“We have worked out the whole package of taxes with minimal impact on the budget of the household, so you can see an overall gain for the government. The government would be less interested in the package if it was purely punitive, but this provides subsidies and savings to health spending that could be reinvested back into communities and services.” He said taxing junk foods also prompted food manufacturers to change their products and make them healthier to avoid the taxes.

“For those who might say this is an example of nanny state measures, let’s consider that we don’t mind asbestos being taken out of buildings to prevent respiratory disease, and we’re happy for lead to be taken from petrol. We need to change the food system if we are going to tackle obesity and prevent disease.”

A health economist at the Grattan Institute, Stephen Duckett, said the researchers had put together a careful and strong study and set of tax and subsidy suggestions. “This is a very good paper,” he said.

“In my view, we should be starting to tax sugary drinks as a first step. Nearly every week there’s a new study citing the benefits of a sugary drinks tax and nearly every month another country adopts it as a policy. It’s quickly being seen as an appropriate thing to do to address the obesity epidemic.”

A Grattan Institute report published in November found introducing an excise tax of 40 cents for every 100 grams of sugar in beverages as part of the fight against obesity would trigger a 15% drop in the consumption of sugary drinks. Australians and New Zealanders consume an average of 76 litres of sugary drinks per person every year.

In a piece for the Medical Journal of Australia published on Monday, the chair of the Council of Presidents of Medical Colleges, Prof Nicholas Talley, wrote that “the current lack of a coordinated national approach is not acceptable”.

More than one in four Australian children are now overweight or obese, as are more than two-thirds of all adults.

Talley proposed a six-point action plan, which included recognising obesity as a chronic disease with multiple causes. He also called for stronger legislation to reduce unhealthy food marketing to children and to reduce the consumption of high-sugar beverages, saying a sugar-sweetened beverage tax should be introduced.

“There is evidence that the food industry has been a major contributor to obesity globally,” he wrote. “The health of future generations should not be abandoned for short-term and short-sighted commercial interests.”

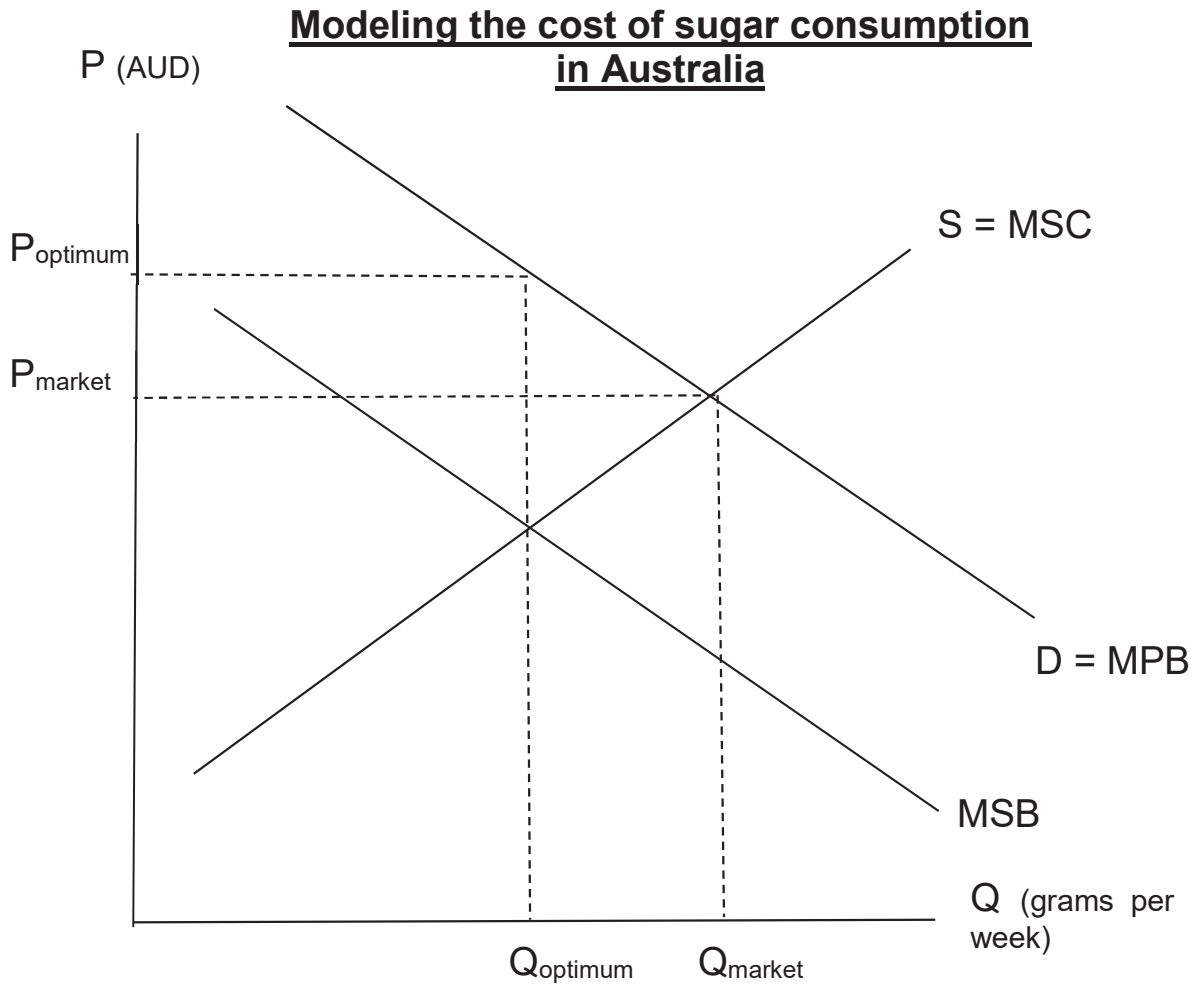
Commentary

Australians can choose for themselves whether to consume foods containing saturated fat and salt, and sugared drinks. But consuming such items (“junk foods”) has high opportunity costs, not just for themselves but for others. The government prefers that they

make the choice of consuming fruits and vegetables. Therefore it is planning to impose an indirect tax on junk foods and a subsidy for fruit and vegetables, which will have the effect of possibly changing the choices consumers make.

One reason for governments to do this is because consumers' choices are not always rational, ignoring the full opportunity costs to themselves of eating unhealthy food. Even if they do know all the costs to themselves, there are also external costs of consumption. Such negative externalities mean that costs are imposed on others when someone consumes this product. These extra opportunity costs include limited contribution to the nation's economy, since health issues caused by overconsumption of these products can lead to inefficient work or inability to perform certain tasks. Also, children consume much junk food. If they have health issues or live a shorter life, they cannot drive the country's economy. Moreover, when people go to hospital because of health problems and use insurance, insurance premiums will rise for everyone else.

These negative effects suggest that people's choices are wrong and they should be consuming less junk food. This can be shown in the diagram below, which focuses on the sugar market.



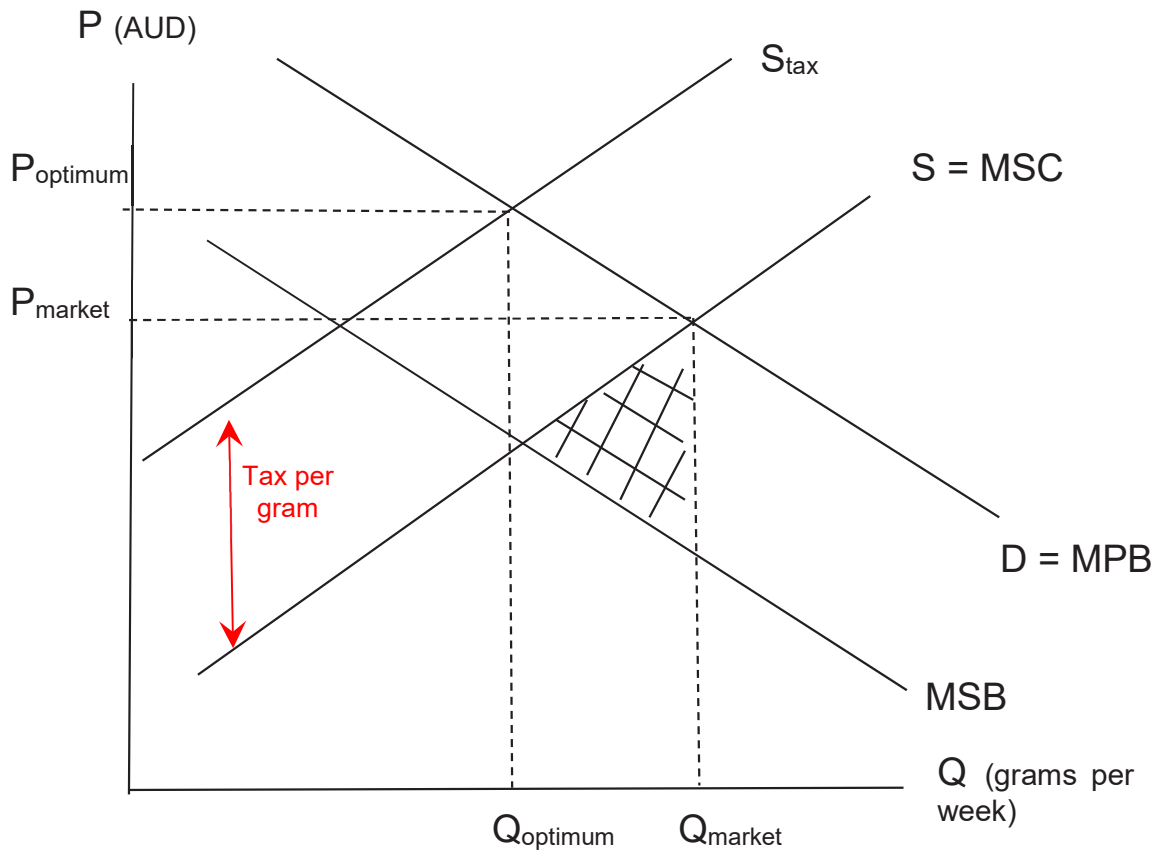
The market price and quantity demanded (Q_d) of sugar are where demand meets supply. However, this demand curve does not reflect the external opportunity costs of consuming sugar. These costs have to be subtracted from the marginal private benefits (MPB), which are represented by the demand curve, and therefore the marginal social benefit (MSB) curve lies below demand.

The optimum price and Q_d of sugar is when $MSB =$ marginal social cost (MSC). We are assuming that there are no production externalities, so $MSC = S$. We see that P_{optimum} and

Q_{optimum} are not the same as P_{market} and Q_{market} , leading to market failure due to allocative inefficiency.

The Australian government is trying to resolve the market failure by imposing an indirect tax, as shown on the next diagram. When the firm has to pay this tax per unit of output, it adds to its cost of production, shifting the supply curve up. This puts upward pressure on

Effect of indirect tax on sugar market in Australia



price, which becomes an incentive for consumers to change their choices, decreasing Q_d . With the right amount of tax, it is possible that the P_{market} and Q_d meet the optimum, reaching allocative efficiency. There is a welfare gain of the shaded area.

In addition, the government plans to subsidize fruits and vegetables. These products have external benefits, such as improving concentration and performance at work and school, which can lead to a growing economy. They also have external benefits of production. Fields to grow crops provide green fields, nature, and clean air. Right now, not enough fruits and vegetables are being chosen when considering these positive externalities. Therefore the choices lead to allocative inefficiency.

A subsidy is money granted by the government to the firm. This decreases costs of production making the supply curve shift down. This puts downward pressure on price which in theory should act as an incentive for the consumers to increase Q_d .

However, the article suggests that subsidies will not change consumers' choices. This may be because demand for fruits and vegetables is price inelastic, meaning that price changes do not have much effect on Q_d . Perhaps, this is because people are not aware of the benefits vegetables and fruits have, so a decrease in price is not enough to make the consumers choose to buy more. Similarly, consumers might not know what to cook with the extra vegetables. Better ways to influence choices and increase demand for fruits and vegetables can be educating people about the benefits and having posters showing meal ideas using vegetables and fruits at stores.

However, the article assumes that taxing sugar will have success in affecting choices. This may be because sugar demand is price elastic which means that Q_d decreases more relative to price increases. Often, sugar is contained in sweets and desserts which are considered a luxury. Luxury goods have elastic demand. Similarly, the children who buy sugary sweets have a very limited income. So when price increases, they are no longer able to afford them. Their choices can be altered more easily.

Often, consumers of sugary, fatty, salty foods are low-income families, since these goods tend to be cheaper. Therefore, is it possible that the low-income families carry the biggest burden. Indirect taxes can lead to allocative efficiency but are perhaps not equitable. Additional subsidies and education are necessary to help low-income families make the "right" choices.