

# Govt wants to bite back at junk food

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Junk food could be hit with a new 10 per cent tax to cut health-care costs and save lives, a major new report recommended yesterday. The report found 20 "intervention options" could save \$6 billion in health-care costs caused by unhealthy living. And they could be a cost-effective way of saving lives. As well as the tax on foods high in sugar, salt and fat, other intervention options include a 30 per cent tax on cigarettes and alcohol.

Based on a five-year study led by University of Queensland and Deakin University academics, the report involved input from 130 health professionals. But the junk food tax didn't go down too well in Darwin yesterday, with customers at McDonald's on Smith St reluctant to pay more for their hamburger or nuggets. Darwin man Robbie Holtze, 32, thought there was enough tax on food. "I reckon it's enough now as it is, without paying for more," he said. The Australian Food and Grocery Council didn't like the idea.

Chief exec Kate Carnell said there has been GST on processed foods for 10 years "but obesity levels have continued to climb". This article discusses the negative externalities of eating junk food the effect a tax placed on it would have on society. It argues that the damages to society, or the social cost of junk food is higher than its benefit to society therefore it causes a market failure<sup>ii</sup>. The article believes that this damage to society could be decreased by placing a tax on junk food, decreasing its demand, it "could be a cost-effective way of saving lives.

In Australia there is an oversupply of junk food which as seen in diagram 1 has caused negative externalities which lead to a welfare loss too society,

creating market failure. Australian resources are allocated on junk food which is Demerit good, that, as all demerit goods is over-produced and therefore over-consumed and is detrimental for the people who consume it and causes negative externalities of consumption to society as a whole.

The marginal social cost of junk food, health issues it causes, exceeds the marginal social benefit, the satisfaction of eating it for consumer. The Australian government is attempting to correct the market failure through the use of taxes. The plan is to place a 10% tax on all junk food with the aim of increasing its price, and decreasing its consumption, leading to a decrease in its negative effect on community as a whole (social cost). These actions take into account the laws of demand and supply<sup>iii</sup>.

As represented in diagram 2, when a tax is imposed onto, for say, French fries, their price will rise from  $P_1$  to  $P_2$  and therefore their demand will fall from  $Q_1$  to  $Q_2$  causing people to consume less of them. In the case of implementing taxes the elasticity of demand<sup>iv</sup> of a good will also have to be taken into account. Since French fries have various substitutes (any other food that keeps you alive) and is not vital nor addictive, is relatively elastic.

This elasticity, as soon as the price is increased by 10% through the tax, would cause people to start buying less French fries substituting them with cheaper and healthy food (as all other unhealthy food would also be taxed according to the article) such as organic meat and vegetables which are examples of merit goods, where marginal cost is less than marginal benefit. Also, as seen in diagram 3, since French fries and other junk foods are

elastic, the firms that provide them are forced to bare a majority of the burden of the tax.

This will therefore deter the firms productivity or ability to provide as much of a good as they did before due to the law of supply, the higher the profits the more they are willing to supply, because the costs of selling junk food is higher due to the tax, the profits are lowered, and less junk food will be produced, therefore sold and consumed. The government will also be able to use the money gained from the taxes together with the money saved in medical issues caused by junk food to the countries benefit.

The article also mentions that this tax should also be imposed on cigarettes and alcohol since they are also demerit goods which have a negative effect on society and cause market failure. As this may be true decreasing their consumption may be a lot harder to accomplish than it is for junk food as there are relatively inelastic being both addictive and hard to substitute. A tax on these may also cause the initiation of black markets. The government's decision to tax junk food may provide an opening to a healthier society.

Although some people may ignore the higher price and continue to eat junk food, the majority of the population will hopefully see a decrease in consumption. This will consequently result in a correction of the market failure as marginal will decrease below marginal benefit although it is getting closer to Pareto optimality. If the government wants to fully eradicate consumption of junk food, it would have to enforce outrageous amounts of

taxes to the point where demand will become zero and the firms producing them would have to close causing people to lose their jobs.