

Would it be
economically
beneficial to Britain to
introduce

[Economics](#)



Although obesity is a worldwide phenomenon in the 21st century, its impact varies between countries. Across the Channel in France less than one person in ten is obese, while in Japan it's less than one in twenty (see Figure 1 below). In England, at present 1 in 4 of all Britons have been declared medically obese - with obesity rates for both men and women surging in recent years (see Figure 2 below). It has recently been predicted by several tabloid newspapers and the BBC that - " Britain is an Obesity Time bomb"- 30th August 2009 (Sunday Express) with " Half of Britons Obese by 2050"- 17th October 2007 (Daily Mail). However in this piece of coursework I intend to look at what has caused the rise in obesity over the last 50 years and whether an 'Obesity Tax' is a viable option.

Ali Muriel - Taxing the Fat - 2005 - www.ifs.org.uk

The Cause

So why are the obesity rates in the UK rising at such an alarming rate? Many factors have been blamed such as the press, fast food outlets, TV's and a lack of exercise. However the implication seems to be that either people are getting hungrier (eating more) or they're getting lazier (exercising less).

It is true that if you do less exercise and eat more calories then you will put on weight, therefore since more people are putting on weight it must mean that they are doing this.

However it could also mean that more of the population are eating different unhealthier foods such as microwave burgers or high calorie ready meals,

therefore outlining that it may be down to people having less time to cook meals from scratch meaning that convenience comes before health.

On the other hand if we actually look into this we can see a strange and not widely publicised fact that Britons seem to be eating less than they used to as Figure 3 below shows. You can see that in 1974 the UK consumed over 2,500 calories per person per day, but by 2004 this had fallen by 10% to just 2,250 calories proving that possibly junk food isn't to blame after all.

Unfortunately it is also evident that the calories consumed in the UK have risen since 1990 whereas before they had fallen to as low as 2,050 calories per person per day.

The explanation

Therefore how do we explain a rise in obesity without a substantial rise in calorie consumption?

Consuming calories has clear costs and benefits for the economy of any country - the cost is both the money you spend on the food (financial cost) and the time you spend preparing it (time cost). The benefits are also fairly obvious; food is pleasurable and nourishes the body.

Expending calories also has costs and benefits, but these vary greatly according to the type of employment you are in. Footballers for example are paid to do physical work - they are ultimately 'paid to exercise'. Lawyers and economists, by contrast, are mostly paid to sit behind desks - for them, expending calories may mean paying lots of money for a gym membership, as well as spending time away from their well - paid job (which means a

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higher 'opportunity cost'). However there are a large number of unemployed (around 2 million) at current due to the recent recession. That is expected to rise up to possibly 2.8 million, therefore these people will not benefit and there will be costs for these people.

But how have these costs and benefits changed over the past century?

One theory that has been put forward by two researchers at the University of Chicago (Tomas Philipson and Richard Posner) is that "the cost of expending calories has risen enormously over the course of the 20th century". This is due to the fact that the majority of people employed in highly active jobs such as farming have fallen substantially therefore people are no longer being paid to expend calories but have to pay instead. While they explain the rise in obesity through the 1980's we can't account that for the continuing rise since 1990. A paper written by David Cutler, Edward Glaeser and Jesse Shapiro called 'Why Have Americans Become More Obese?' suggests that it is in fact the changes in the technology of food production. Up until the 1980's a large percentage of food was home cooked. However with the invention of the microwave and the introduction of new preservatives food is preserved and ready to cook immediately. This eliminates the time cost as most food is now pre-washed and vacuum packed; this advance is down to the division of labour making goods cheaper.

This revolution in food preparation means that we can consume both greater quantities and a greater variety of food than ever before. This, coupled with the changes in the technology of work and computer-based jobs, has caused the rise in obesity.

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What can be done?

Obesity has costs for the whole society. On an individual basis there is a cost to health in terms of increased risk of diabetes, stroke etc. For the wider society within England, the cost to the NHS of treating obesity-related health conditions is estimated to be rising as high as £6.3 billion by 2015. The government have tried public information campaigns and educating the public on how to lower the risk of obesity, however none of these have halted the increase and therefore I believe an 'Obesity Tax' should be introduced.

Before we talk about the logistics of such a tax it needs to be stated that some fat is important to the human diet and therefore the tax would be on the overconsumption of fat not fat itself. Fatty foods are consumed by rich and poor alike, which means that a fat tax would most likely be regressive and therefore hit the poor hard due to the fact that a greater fraction of their income is spent on food. For example an 'Obesity Tax' has been trialled in Leicester where they found that the poorest 2% of people would lose about 0.7% of their income in obesity taxes, while the very richest would pay less than 0.1% of their income. However even if such a tax was introduced there would need to be certain levels that separated the higher and lower earners therefore ensuring the tax is fair for all.

Another way in which people could be taxed is through the concept of direct and indirect taxation as therefore we could either tax the people who eat the fatty foods to discourage them from doing so (direct taxation) or tax the whole country in order to discourage everyone from both buying fatty foods

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and make companies limit the amount of saturated fat they use (indirect taxation).

The use of indirect taxation may not be viable due to the fact that Britain is still in a recession and many people can't afford another tax. Taxes on spending of fatty foods (indirect taxes) is cheaper to administer than direct taxes because they are only collected from businesses or the whole country.

Indirect taxation gives the government more control over its fiscal policy. Therefore certain indirect taxes can be changed between budgets without parliamentary approval (e. g. VAT by up to 25%, excise duty by up to 10%). In contrast, direct taxes can only be changed in the annual budget. One advantage of indirect taxes is that they can be used explicitly to correct market failure caused by the obese population as externalities occur when the social costs of production or consumption exceed the state costs. This implies that the price of food does not reflect the true costs of production and will result in over consumption. The use of indirect taxation is one solution to the problem of externalities: the producer or consumer is charged the full social cost and demand will respond accordingly. Indirect tax increases will therefore push up prices, decrease consumption and hence reduce the effects of negative externalities such as damage to people's health.

On the other hand rather than taxing people for buying or producing fatty foods we could decrease the taxes companies pay if they encourage people to eat more healthily by supplying food that's low in fat in their canteen's or make it mandatory for workers to go to the gym once a week. As well as this

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employers could encourage employees to take up the schemes by decreasing the taxes they pay on their salary if they visit health classes and keep fit.

Conclusion

As can be seen on the table to the right the cost of obesity is rising and it needs to be subdued before the costs spiral out of control and it has an irreversible effect on the country. I have outlined above four options:

- 1) Taxing fat foods
- 2) Indirect taxation
- 3) Direct taxation
- 4) Tax reduction for company's or employees

I believe that the best option would be the use of direct taxes coupled with the use of Tax reduction for companies or employees. The taxing of fat foods wouldn't work as people would still buy the food and therefore prices would need to rise to an extremely high price before people stopped buying them. However the use of tax reduction targets directly the employed and at the same time encourages the companies to think about their staff. If this measure proved successful the use of tax reduction on companies who use less saturated fats in their food could be introduced as this borrows some of the ideas from indirect taxation. The use of direct taxation would target the problem of obesity at the source (people who buy the fatty foods) and therefore would be a successful long term option to lower obesity and make

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it less financially viable for people to buy the food. At least until the companies themselves decrease the amount of fat in their products.