Can a Tax Lower My Cholesterol?

An Examination of the Negative Externalities in the Fast Food Market
1. Introduction

Anyone who even vaguely pays attention to the news will concur that one of the most prevalent issues (and arguably the most important) in today’s public policy discussions is healthcare. The question of whether or not a government has a role in affecting the health of its citizens is more relevant now than ever before. The truth is, however, that the government has been playing a role in regulating the health of its citizens for many, many years. Things like sin taxes on cigarettes, the ban of illegal narcotics, and the institution (and repeal) of the prohibition act are all examples of the government trying to decide what is healthy for its constituency and what is not.

In recent years, another health concern has come to light: obesity. According to You and Nayga, “The prevalence of obesity in the U.S. population has nearly doubled in the last 10 years, and today an estimated 64% of Americans are classified as overweight or obese” (302). Many attribute this rise in obesity to poor diet, namely one which includes frequent fast food consumption. This notion is supported by a study conducted by Bowman et al. which concluded that, “Consumption of fast food among children in the United States seems to have an adverse effect on dietary quality in ways that plausibly could increase risk for obesity” (112). So, since obesity is a health concern and since fast food consumption can lead to obesity, should the government intervene in the fast food market?

Typically, government intervention in a market is only necessary when there are externalities present. For the purpose of this paper, we will define an externality as either a cost or a benefit that is not reflected in the price of a good, which affects more than just the person consuming the good. This brings us to the thesis of this paper, which takes the form of two questions. The first is: What are the externalities associated with purchasing and consuming fast
food? If externalities are present, then our second thesis question asks: Could it be in society’s best interests to consider a tax on fast food to bring the market to a more efficient level of production? This paper will continue as follows: Section 2 will address the first thesis question by identifying and discussing the negative externalities of consuming fast food; section 3 will address the second thesis question and explore the possibility of using government regulation/policy to correct any externalities in the fast food market; finally, section 4 will conclude by discussing potential implications and consequences of government intervention in the fast food market.

2. Externalities in the Fast Food Market

It doesn’t take any degree of advanced education or professional experience to figure out that fast food, while great tasting, is bad for us. In fact, eating enough of it may have negative effects on our health. This line of thinking suggests that there may be private health costs associated with consuming fast food, costs that are not necessarily reflected in the menu price of the food itself. Simply put, eating a Big Mac for lunch every day may cost more down the road than the couple of dollars spent purchasing it. This concept is not much of a stretch. However, in order to construct an argument for government intervention in the fast food market, it may need to be shown that a person consuming fast food and becoming obese or overweight incurs a cost on society, not just themselves.

Being overweight or obese can lead to a number of other health complications. Of these, the most significant is probably diabetes. Anyone with diabetes, namely type II diabetes, will likely confess that the disease is not a cheap one to treat and control. A study by Ballesta et al. showed that not only is the disease not cheap for those who suffer from it, but that there is a broader economic cost associated with type II diabetes. The study examined patients with type II
diabetes in Spain. The direct and indirect costs (in Euros) that a type II diabetic patient incurs were estimated. Of the costs associated with the disease and its complications, 42% were indirect costs (Ballesta et al. 273). These indirect costs were mainly the loss in productivity and working hours associated with both permanent and temporary disability caused by diabetes (Ballesta et al. 273). Perhaps the most compelling piece of information in the study revealed that, “The area of highest cost (36% of the total) corresponded to the loss of productivity from permanent disability due to diabetes; this factor accounted for increased healthcare costs of €4,077.70 per annum, compared with diabetic patients without permanent disability” (Ballesta et al. 273).

The study of Spanish patients also showed that diabetic patients that were actively employed missed anywhere from 8.8 to 15.8 work days per year on average due to temporary disability directly associated with diabetes (Ballesta et al. 273). Thus it would appear that those who have type II diabetes are generating a cost to society, both in the form of increased healthcare costs and losses in work productivity. The results of this study imply that people who become diabetic by eating unhealthily (lots of fast food, for example) will incur a cost on the rest of us, even if we do not consume fast food ourselves.

A similar study was conducted in Germany by Sander and Bergemann. Their study provided a snapshot of the obesity problem from the German perspective by analyzing the direct and indirect costs associated with obesity and some of its related complications. Sander and Bergemann found that, “Obesity alone incurs direct and indirect costs of €216 million and €214 million, respectively” (249). Sander and Bergemann’s grand total cost to the German society resulting from obesity and its comorbidities was estimated at €2,709-5,682 million, or between 2.7 and 5.7 billion Euros (250). According to their input data, a cost of €150 million per year was due to just the loss of work associated with obesity, while high blood pressure (a related health
complication which may also result from poor diet) cost € 755 million annually due to work loss (Sander and Bergemann, 273).

These two studies make it grimly clear that complications resulting from obesity and poor diet affect more than just those who acquire and live with them. The negative externalities associated with fast food consumption are both evident and alarming. What then, should be done about it?

3. Should They Tax Big Macs?

Now that it has been established that there are spillover costs associated with regular fast food consumption, what do we do about it? It is obvious that fast food companies are not including the exorbitant healthcare costs to society when they price their products. In fact, there is research that points to the idea that fast food companies may use a pricing strategy that is even more detrimental to society. Richards, Patterson, and Hamilton studied how fast food companies price their products and found, “a strategy of pricing items high in potentially addictive nutrients below marginal cost, thereby building a community of consumers who are not just loyal to a particular firm's offerings, but addicted to them” (444). Apparently, fast food companies not only realize that their products may be addicting, but intentionally operate at an inefficient level in order to hook a consumer base and acquire longer-term profits.

Should there be a call for action? Economic theory tells us that if a negative externality exists in a market, too much of a good is being produced. The government usually has a strategy for correcting this problem: they implement a tax to force producers to internalize some of the external costs associated with their products. Since the price of fast food is not reflecting all of the costs associated with the fast food, it makes sense that we should do something to make up the difference.
An article by Kuchler and Golan argues that the government should intervene in the fast food market only if that market has failed in some way. Possibly the most compelling argument for market failure (and government intervention) is the idea that, “Individual consumers may not consider all the costs and benefits of their food-consumption choices. The existence of health insurance, both private and public, may distort the correspondence between the personal and social costs of maintaining an unhealthy weight” (Kuchler and Golan). Kuchler and Golan go on to say, “Economic efficiency will be compromised if individuals react to insurance by replacing healthy diets (preventive care) with tasty but unhealthy ones (and much more expensive ameliorative care for their chronic illnesses).” However, Kuchler and Golan are reluctant to impose something like a fast food tax, and say instead that internalizing the costs of obesity and overweight through medical plans may be the best way to target spillover costs. Nevertheless, they do not disagree that there are spillover costs.

Other researchers also believe something should be done to combat the negative externalities of fast food. Chang and Nayga outline various policy suggestions, such as developing public health programs that would educate parents and children about the effects of fast food consumption on childhood obesity (305). Richards, Patterson, and Hamilton suggest a “fat-tax” policy that would raise taxes on foods with moderate fat or high sugar content in order to deter fast food companies from engaging in pricing strategies that exploit the addictive properties of their products (445). You and Nayga state that a significant reduction in fast food expenditures would be needed to cause a significant improvement in the dietary quality of children (312). To accomplish this, they recommend improving the quality of foods served in schools and providing nutritional education to children, including teaching children how to read nutrition labels (You and Nayga 312).
Although the idea of a fast food tax (or any sort of tax) is never popular, the general consensus among researchers is that something needs to be done at the public policy level. While some advocate taxing foods with unhealthy amounts of addictive ingredients, some call for more education and even healthcare reform. Clearly, the level of production of fast food is greater than the efficient level and the government has at least some justification for stepping in and doing something. After considering the policy suggestions provided by researchers, and the evidence of the negative externalities associated with fast food consumption, it is arguably in society’s best interests to consider some sort of government action to bring the market to a more efficient level of production. But what does this mean for us as taxpayers?

4. Conclusions and Implications

In this paper we have concluded that negative externalities do exist in the fast food market. We have defined those externalities and how they can potentially impact society as a whole. We have also concluded that some sort of intervention in the fast food market needs to take place in order to bring the market back to the socially optimal level of production. But would society really perceive such action as optimal?

Do we really want to pay a tax on cheeseburgers? Moreover, do we really want to live in a country where a government tells us what is healthy and what is not? Surely, consuming less fast food would make us all better off. However, is that not our choice? This is a difficult question to answer, because sometimes in making that choice, we are imposing a cost on others who may not even be aware of our choice. If the government does intervene (more than it already has) in the fast food market, where is the line in the sand? Will the government soon be intervening in our leisure activities, telling us that being a couch potato is imposing an unfair increase in healthcare costs on others?
In answering the question of whether or not there are externalities in the fast food market, we have inadvertently raised many more questions that are of equal importance. How much value do we place on our autonomy, and how does that measure up to how we value good health and low taxes? It would be no understatement to say that this facet of public policy debate is a conundrum and that before any policy decisions are made, more empirical evidence is necessary.
Works Cited


