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# Government intervention in food markets

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# Motivation

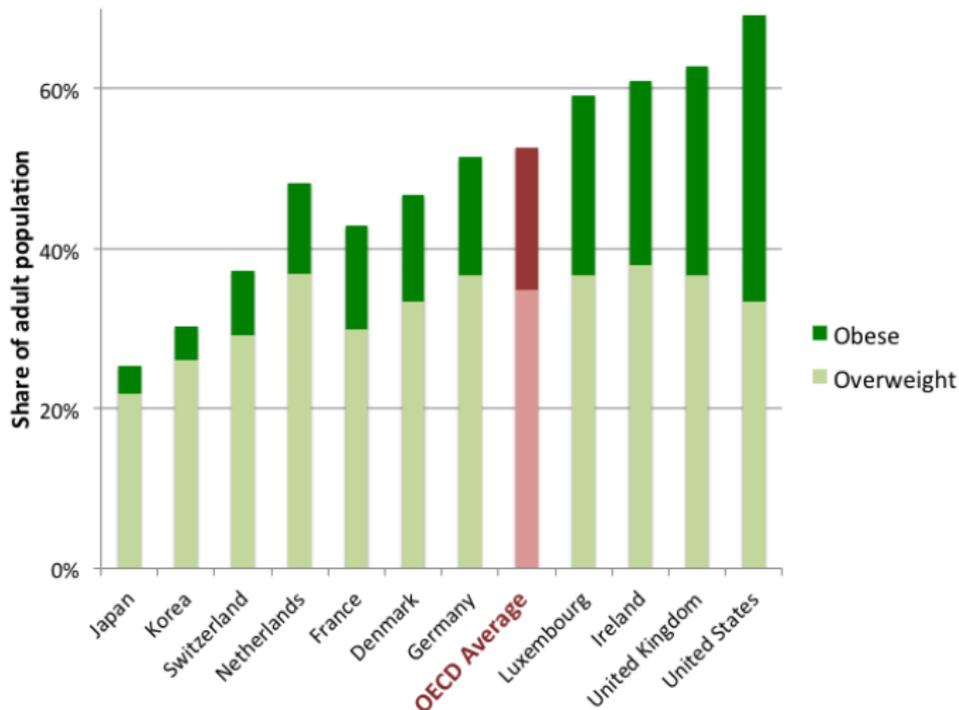
- In some markets competition may deliver what consumers seem to demand
- but nevertheless give rise to public policy concern
- for example, food markets

# Outline

- What's the problem in food markets?
  - increase in weight and obesity
  - rise in other diet-related disease
- What role for government interventions?
  - externalities
  - information failures, self-control problems
- What possible policy responses
  - how can we evaluate the effectiveness of policies (ex post and **ex ante**)
  - important to account for consumer response **and firm response**
- Summary and avenues for further research

# The public policy concern

- High levels of obese and overweight adults



# The public policy concern

- Childhood obesity also high and rising
  - 4-5 year olds: 9.3% obese, 13% overweight
  - 10-11 year olds: 18.9% obese, 14.4% overweight
  - 2-15 year olds: 28% obese or overweight

# The public policy concern

- Excess weight leads to health problems
  - increased risk of cardiovascular disease, hypertension, diabetes, joint problems, certain cancers, depression
- Not only obesity, also rise in other diet-related disease
  - excessive salt, saturated fat, sugar
  - low fruit and vegetable intake
  - low consumption of wholegrains
- Obesity and poor nutrition in children
  - can lead to longer term health and developmental problems
  - and feed through into poor social and economic outcomes

# What role for government?

- Well functioning market yields efficient allocation of goods
  - if individuals are fully informed and rational
  - if firms are price takers, so prices reflect costs
- Why might food markets fail?
  - are individuals fully informed about the characteristics and consequences of food consumption?
  - are individuals “rational” when making food choices?
  - are firms price takers?
  - do prices reflect costs?
  - are there
    - externalities from consumption
    - information or cognitive failings
  - combined with market power by firms

# What role for government?

## Externalities

- If consumption imposes costs on others
  - an individual has no incentive to take these costs into account
  - leads to excessive consumption from a social perspective
- What externalities are there from food consumption?
  - costs of healthcare (or insurance)
    - hospital admissions with a primary diagnosis of obesity in England tripled from 2007 to 2011 from 3,860 to 11,570
  - lost economic output due to sickness absence and lower productivity
- BUT need to be careful, are these all externalities?
  - what are incremental costs of treating obesity
  - some costs fall on the individual (eg through lower wages)

# What role for government?

## Externalities on your future self

- Consumers might not be fully forward looking
  - in which case the externality is on the person's "future self"
  - children the most compelling case
- Information failings
  - people may be capable of processing information, but lack the necessary information to make informed choices  
or
  - people may be cognitively unable or unwilling to process it, even if all the information is there
- The policy response to these will differ

# What role for government?

## Information failings

- Consumers may be badly informed about:
  - their own nutritional needs
  - the nutritional characteristics of a specific food product
  - costs associated with the consumption of certain foods (particularly when uncertain and are borne in the future)
- Example
  - 48% respondents thought they did not need to worry about their saturated fat intake if they exercised regularly, were not overweight or ate lots of fruit and vegetables (FSA, 2009)
  - this view is incorrect - excessive consumption of saturated fat can have negative health consequences for anyone



# What are the policy options?

- Directly provide information through schools, government advertising, labelling, etc.
- Provide education to help individuals process information
- Alter incentives and choice sets through changing relative prices or incomes
  - Fiscal measures
  - Regulation
  - Cash transfers
- “Nudge” policies
  - alter the way choices are presented to individuals and the context in which they are made

# Policy analysis and evaluation

- Need clarity about aims of policy intervention
  - simply aim to achieve a reduction of unhealthy behaviours?
  - or an increase in welfare?
  - which market failures are we trying to correct?
- Evaluation of the effect of policies
  - ex post and ex ante policy analysis
  - many policies not implemented, or only in limited form
  - where implemented not usually with an “experimental” set up
- Important to consider what new market **equilibrium** will be after policy intervention
  - consumer responses
  - **AND** firm responses (e.g. changing price of goods, product offering, or way products are advertised)













# Summary

- When evaluating policy we need to consider how firms will respond, i.e. what new market equilibrium will be after policy intervention
  - firms may respond to policies in ways that make the policy less effective, e.g. by changing price of goods, product offering, or way products are advertised, or potentially more effective
  - structural estimation has an important role to play in allowing us to do this
- In the example of banning advertising in crisps market:
  - the ban lead to a reduction in quantity purchased
  - but the increased competition in prices, lowered price which expanded the market, meant that the effect was much lower than if only the direct effect of the advertising ban was considered