Ask: NUS Economist

Fast food: Should govt. intervene?

By Chan Kok Hoe

Should governments intervene when it comes to the negative externalities arising from fast-food consumption?

MEDICAL studies have demonstrated that regular fast-food consumption is associated with the increased incidence of obesity and insulin resistance. These factors in turn lead to higher risks of contracting long-term medical problems such as Type 2 diabetes and stroke.

In particular, the consumption of trans fats, used widely in fast-food preparation because they enhance flavour, appears to significantly elevate the risk of coronary heart disease.

As obesity rates climb to alarming levels, governments in many countries are looking at measures to reduce fast-food consumption. Officials in places as different as Romania and Taiwan have proposed levying taxes on fast-food, along with other high-calorie processed foods.

Malaysia has banned the broadcast of "junk" food advertisements on children's TV programmes. The use of trans fats in cooking has been essentially banned in Denmark and Switzerland, and in American cities such as Philadelphia and New York.

Government interventions would be unnecessary if consumers made well-informed decisions and bore all the costs of impaired health that stem from fast-food consumption. So there are two arguments for intervention.

One is that consumers may not make good dietary decisions (for example, due to lack of self-control). The other involves negative externalities, meaning that the consumption of fast food by some people creates costs that fall on others.

Where health care is financed by taxpayers, people with unhealthy diets share their elevated costs of medicine and treatment with others through increased taxation. Where health care is financed through insurance, rising obesity rates lead to higher insurance premiums for all.

To the extent that fast-food consumers do not account for these external costs falling on others when making dietary decisions, the argument is that governments must step in to discourage fast-food consumption.

I find the externality argument unpersuasive. First, the negative externality described above is very much a product of the system of medical care payments. Modifying the system to emphasise individual responsibility for costs would be a more straightforward way of reducing such transfer of costs. Medical insurance, for instance, can easily be adjusted such that the obese pay higher premiums than the non-obese.

Second, the trigger of external costs is not fast-food consumption per se, but obesity. While fast food is calorie-rich, one can also amass calories by eating large portions of other foods. Indeed, some restaurant dishes and hawker favourites such as fried fish Balls may be even more calorie-rich than fast food.

According to the National Nutrition Survey of 2004, a typical Singaporean adult aged 18 to 69 is over 70 times more likely to have dinner at a hawker centre than in a fast-food restaurant.

Low calorie expenditure due to sedentary lifestyles is an equally important contributor to weight gain.

When it comes to reducing obesity rates, efforts directed at promoting active lifestyles and good general dietary habits, and the provision of nutritional information regarding hawker food, may well be more cost-effective than regulating or taxing fast-food consumption.

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