

Student 2: High Merit

NZQA Intended for teacher use only

Recommendation

Overall, in terms of efficiency both policies are not perfectly efficient; however, both would still have an impact on the consumption of fat and sugary foods. This means that the spillover cost on society from demanding unhealthy foods would reduce. Both increasing education and introducing subsidies on healthy foods would cost the government a tremendous amount but the best outcome for the future I believe is implementing a subsidy on healthy foods and an education program. ①

This is because increasing New Zealand's (NZ) knowledge on what the effects of junk food are will not necessarily by itself mean people will reduce their consumption if it is also a matter of cost and the price, so applying subsidies on healthy foods will actually make a change on the price of these goods. Families with less income and salary would not be able to make severe changes to their grocery items as money is an issue, but applying a subsidy on healthy foods will benefit them and they will be encouraged to switch to healthier foods. Although it will raise the government expenses for cash grants there is a possibility that this change will positively affect other sectors like reduced healthcare costs and an increase in productivity of labour. ②

The NZ government could get the money to fund this change from increased productivity when the obesity rate falls or from the decrease in health costs from obesity related sicknesses. The expenses for sickness benefits per week should also fall slightly as people with better health can be re-employed and then they earn more from full-time wages/salaries.

A food subsidy might sufficiently decrease consumption making obesity rates fall and cut the costs imposed on society. Such changes in other countries have been shown to affect food choices. A series of experiments confirmed that even schoolchildren's purchases are sensitive to changes in the relative price of foods. However, there is an issue around what foods should be subsidised and which ones contribute to obesity, because all foods consumed in sufficient quantities can contribute to calorie surplus and weight gain. Additionally, it is not sustainable in the long term because the expense of food grants may only be partially offset by the savings in reduced health costs, and so the decreased healthcare costs may not be enough to cover the subsidy for the rest of the impending years. ②

A subsidy is equitable because it benefits everyone in NZ and is accessible to every race and gender. Everyone will have the option to change their diet with a subsidy; this will help families with less income who researchers say are the ones with the highest rates of obesity. A subsidy will also achieve a more efficient allocation of resources as it will be faster than implementing and seeing the benefit to society from the education program. This is because an increase in education by itself will only make people aware of the issue; it cannot automatically change people's diet, whereas a change in price can. ②

A decrease in price will encourage families to eat healthy foods instead of junk food, and labelling and advertising increases their knowledge of the issue. The subsidy policy would have to be implemented for quite a long time, possibly several years to resolve the issue of obesity because it will take time to get people to adjust their diets and to allow families to

continue making better food choices in the future from increased education. If the government just applied this change for a few months it would only help families for the time being and once the subsidy is taken off again lower income families will be forced back into their old habits – consuming junk food as it is the cheaper option and can often feed a larger group of people.

Overall, the best policy is combining a shorter-term subsidy on healthy foods with education, which will help more in the long term and the combined policies are equitable, effective and more efficient than either one by itself, which is bound to help reduce the obesity rate in NZ and therefore address this market failure. 2