

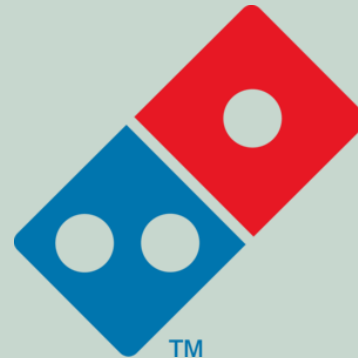


SHOULD THE GOVERNMENT TAX GOODS THAT ARE UNHEALTHY?

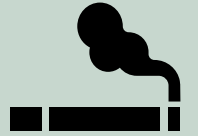
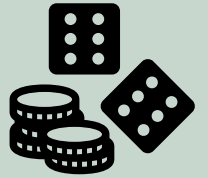


DEMERIT GOODS

Unhealthy goods can be classed as demerit goods. A demerit good is a good whose consumption is considered unhealthy, degrading or otherwise socially unwanted because of the negative effects it causes (known as social costs). These are goods which are often over consumed or consumed at a greater rate than socially acceptable. Unhealthy goods can encompass things such as alcohol, smoking and foods that are high in salt, sugar and saturated fats. There are many ways in which this overconsumption can be decreased, such as taxation, regulation or nudges.

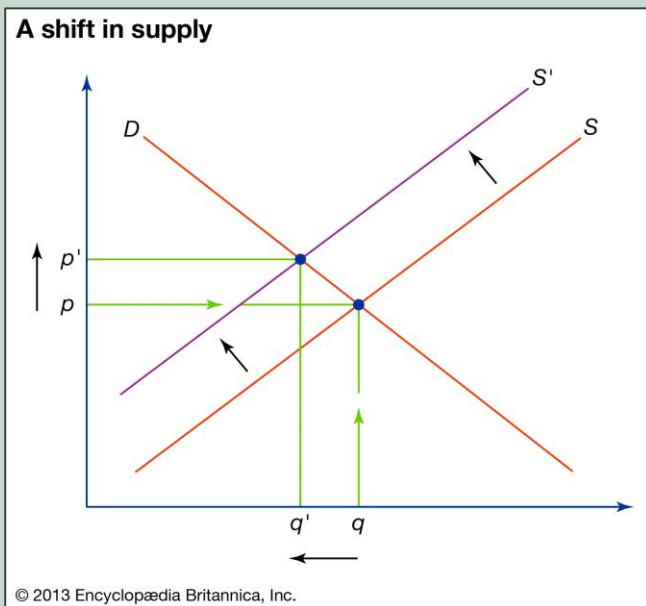
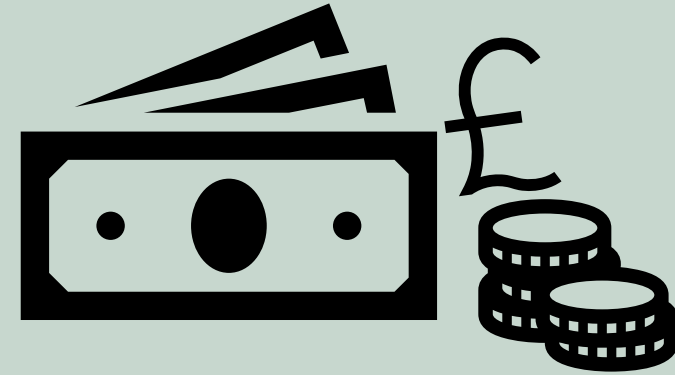


In this presentation we not only want to talk about tax, but also alternative government interventions that can either act independently or co-exist with a government issued tax on demerit goods.



TAX

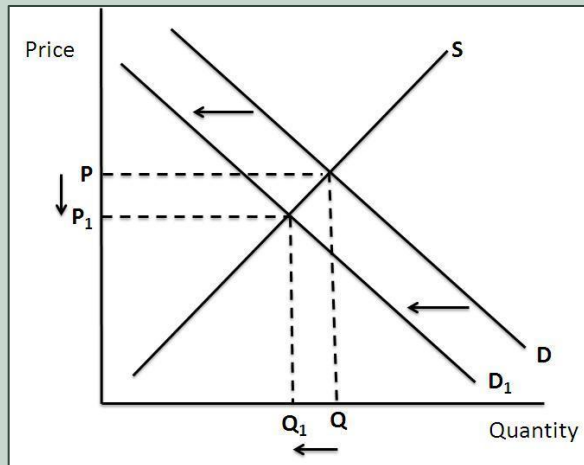
A tax is a compulsory contribution to the state, levied by the government. A few examples of tax are income tax, corporation tax and VAT. A tax on demerit goods would aim to reduce consumption by forcing the price to rise. This would result in a decrease in supply, shifting the curve left $S \rightarrow S_1$, causing an increase in price $p \rightarrow p_1$ and quantity traded to decrease $Q \rightarrow Q_1$.



This does, however, rely on the price elasticity of demand of the good as this can cause demand to remain fairly constant regardless of price. If the price is inelastic, the demand would not experience a significant decrease as demerit goods tend to be addictive, which means people will still consume despite a rise in tax. Additionally, if a producer makes a high enough profit, they may choose not to increase their prices despite the added tax. However, tax isn't the only available solution for decreasing the consumption of demerit goods. There are government interventions that can either work independently or with tax to help improve consumption.

REGULATIONS

A regulation is a rule or directive made and maintained by a figure or system of authority. Regulations applied to demerit goods will often be in an attempt to deter consumers from purchasing the item. This would therefore reduce demand, shifting the demand curve $D \rightarrow D_1$. This would decrease the quantity demanded from $Q \rightarrow Q_1$ but would also decrease the price from $P \rightarrow P_1$.

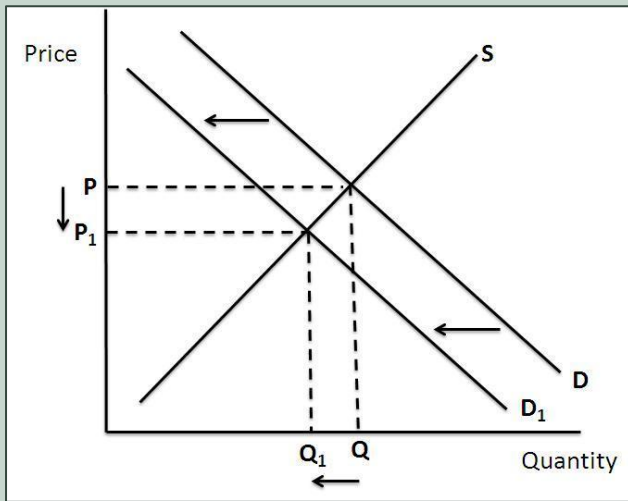


But if regulations, such as age limits above 18 or minimising the amount allowed to be given, were to be put in place, chances are that people would break the law. As a result, the government would need to improve spending on enforcement which would increase government spending; this is a relevant issue as the UK government is currently in a deficit of £131 billion (2022/23).

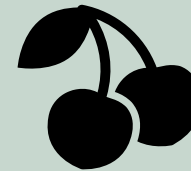
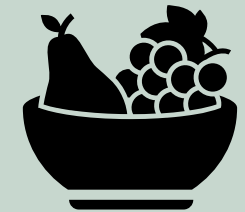
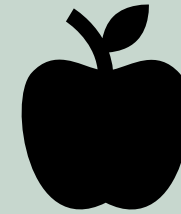
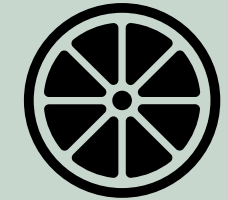
An example of this is the packaging regulations in the UK of tobacco products. All packaging must be fairly generic with many warnings to health and the problems it can cause.

NUDGE

A nudge is a way in which you can manipulate someone's decision making, for example through education. It does not force them to change but encourages a certain way of thinking. In this case, a nudge would be used in order to reduce demand, causing a shift left of the curve $D \rightarrow D_1$, also causing a decrease in both price, $p \rightarrow p_1$, and quantity traded, $Q \rightarrow Q_1$.

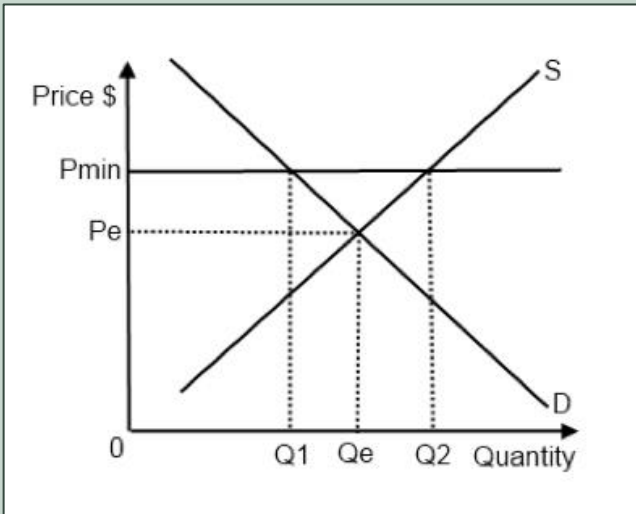


Whilst they are cheap, nudges often take a long time to come into effect, making this a more long term solution. Nudges often rely on the assumption that the audience will be homo economicus and persuaded by the message- meaning that it will not always have an effect.



PRICE FLOOR

A price floor is an imposed price limit on how low a good or service can be charged for. This is often above the equilibrium price found by the free market. This rise in price would likely cause a decrease in the quantity demanded, $Q_e \rightarrow Q_1$.



An advantage of this policy is that it would likely decrease consumption, if only by a smaller amount than anticipated or desired. This policy can also reduce the pressure on the healthcare system by reducing consumption. It can also increase productivity if people are healthier and taking fewer days off of work.

However, imposing a price floor can lead to excess supply in the market. This is because when a price floor is established above the equilibrium price in the market, quantity will increase as demand decreases. This surplus in the market can be fixed if production is cut down so products won't be produced in large quantities.

An example of this policy in action is Scotland, where there was a minimum price of 50p per unit imposed on alcohol in 2018. This led to a decrease in consumption of alcohol in Scotland. However, many people who live near the border would drive down into England, where no minimum price is imposed to purchase alcohol for a cheaper price.

CONCLUSION

Overall, we think that a tax would be the most effective short term solution to reducing the consumption of unhealthy goods. Even though those more addicted may continue to consume the goods, many who are less addicted or who may not have enough disposable income to spare will reduce their consumption. We have received a response from a member of the Alcohol Harm Prevention Scheme, Paul Cavanagh, who has stated that setting a price floor has shown evidence of improvements in health in Scotland which includes less visits to the hospital and less alcohol-related deaths. However, we think tax is still better suited as the risk of black markets and an increase of the use of a substitute demerit good (drugs) would outweigh the benefits. Additionally, the tax would bring in revenue to the government, which could then be spent in sectors such as healthcare to try to reduce the social costs caused by the consumption of these goods. Furthermore, I think that a nudge would be effective to execute alongside a tax or other short term solution.

This is because a nudge will take a long time to work and could reduce consumption greatly in future through education.

[Bibliography](#)
[ScotGov letter](#)