

Public Health Initiatives

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Health Externalities

People have a lot of unhealthy behaviors. The government should intervene if these behaviors cause negative externalities.

- ▶ **contagion** – for serious diseases that are spread by water, etc., need public interventions because people won't take enough precautions for society
- ▶ **alcohol** – drunk driving, fetal alcohol syndrome, spouse and child abuse, crimes of violence, health care programs like liver transplantation, govt provision of mental illness related to alcohol consumption
- ▶ **tobacco** – irritation, secondhand smoke, birth outcomes of smokers, govt provision of health care for lung cancer
- ▶ **obesity** – higher health care costs on average so higher premiums on average, lost productivity due to illness
- ▶ **research** – positive externality, people would not do enough (socially optimal) without govt funding

Addiction

- ▶ To best inform how we should intervene, we need to discuss why people do the things they do.
- ▶ Why do people smoke and drink?
- ▶ If it is because they're addicted, do we have an obligation to intervene?
- ▶ Let's discuss 3 theories of addiction and their policy implications.

Rational addiction model

- ▶ addiction is when consuming a product now makes you enjoy it even more in the future
- ▶ when you choose to consume an addictive substance, you are taking into consideration the current and future costs and benefits (rational—big assumption)
 - ▶ know preferences
 - ▶ know choices
 - ▶ choose what's best
- ▶ people who value the future less are more likely to consume addictive substances (costs are lower)
- ▶ thus, if there were no externalities, there would be no reason to intervene

Rational addiction w/ **time inconsistencies**

- ▶ rational choice but you want something now and you want to invest in the future
 - ▶ instead of studying 10 hours each day for 3 days, go to beach today and study 15 hours each day for 2 days (time inconsistent)
- ▶ thus, it may help people to avoid starting a habit because they will regret it later – charge higher tax than cost of externality

Rational addiction w/ **myopia**

- ▶ rational choice but you don't really know how bad something is for you, so you are making the choice based on bad information
- ▶ thus, it may help people to protect them from their ignorance

Now, how to intervene...

Advertising Restrictions

Theories of Advertising

- ▶ **information** – advertising can inform consumers so they can make better choices, increases competition, lowers price, e.g. anti-depression medication, but could increase overall demand
- ▶ **brand loyalty** – advertising tries to get consumer to differentiate a certain brand from another, reduces competition, increases demand for your brand, increases price, e.g. Hallmark
- ▶ **complementary good** – advertising can make consumers associate a good feeling with the product, reduces competition, increases demand for your brand, increases prices, e.g. RCA dog, target dog
- ▶ So, if brand switching is true, then advertising ban shouldn't have big effect

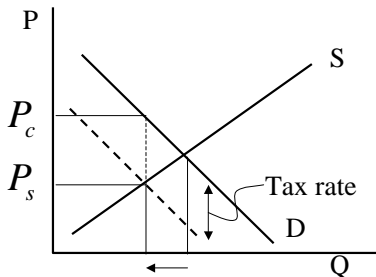
Effects of advertising bans

- ▶ Before 1971, FTC required equal time for anti-smoking and smoking ads
- ▶ 1971, ban on cigarette ads on broadcast media
- ▶ Effect – increase in smoking b/c anti-smoking ads are very effective
- ▶ if a country bans cigarette ads, then consumption falls 6.8%
- ▶ alcohol advertising bans reduce motor vehicle fatalities
- ▶ Govt is now considering food advertising bans to address obesity problems – is it the same?

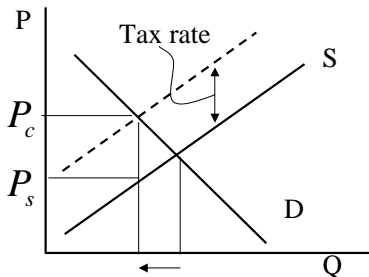
Excise Taxes

- ▶ Defn: tax on specific goods (not a general sales tax); can be earmarked for certain things (smoking cessation, etc.)
- ▶ Tax on buyers or sellers have same result – depress activity, burden is shared either way

Tax on Buyers



Tax on Sellers



Excise Taxes and Elasticities

Reduction in quantity will depend on slope of demand curve; if inelastic, small effect, if elastic, big effect

Excise Taxes and Elasticities

More likely to be elastic if long-run (vs. short-run) and young (vs. adult) (both tobacco and alcohol)

- ▶ Why do you think?

Who pays for the excise tax? Consumers or producers?

Depends on the elasticity

Tax not fully passed on to consumer – some of tax paid by producer (more if D elastic)

Effect of Beer Excise Taxes

- ▶ reduces consumption of alcohol and tobacco (complement)
- ▶ may increase marijuana use (substitute)
- ▶ reduces teen abortion rates, gonorrhea and AIDS rates

Current Excise Taxes

- ▶ current tax on cigarettes:
 - ▶ federal is 39 cents per pack
 - ▶ GA state is 37 cents per pack (highest is NJ 257.5 cents, lowest is SC 7 cents)
- ▶ current tax on alcohol:
 - ▶ federal
 - ▶ \$1.72 per gallon of beer
 - ▶ \$1.07 per gallon of wine
 - ▶ \$12.50 per proof gallon of liquor
 - ▶ GA state
 - ▶ \$0.48 per gallon of beer
 - ▶ \$1.51 per gallon of wine
 - ▶ \$3.79 per gallon of liquor (highest is WA \$19.43, lowest is VT, WY, NH at 0)
- ▶ some states have instated a 'snack tax' to combat obesity – what do you think? Is demand for junk food elastic?