

Combating obesity as a market failure

August 31 2015, by Terry Kosdrosky



The obesity epidemic is growing and becoming ever more costly in the U.S. and other industrialized countries. Generally, that is where agreement ends on the subject.

How to best combat obesity—and the proper role of the markets and

government in that mission—is far from settled.

That's why a new study by Aneel Karnani, professor of strategy at the University of Michigan's Ross School of Business, and colleagues looks at obesity as a market failure.

They identified a problem with many causes and politically unpopular solutions. Unlike the causes of other preventable ills—such as tobacco and alcohol—food is a necessity with sometimes subjective views of what's unhealthy. The hope is that evidence-based study sparks public discussion about taking steps that work.

"What we found is that things that are likely to happen are unlikely to work, and things that are likely to work are unlikely to happen," Karnani said. "We need some form of government regulation to solve this, but that'll only happen after we get a sensible public debate going. That's what we're trying to do with this research."

Karnani and colleagues Brent McFerran of Simon Fraser University and Anirban Mukhopadhyay of the Hong Kong University of Science and Technology argue that obesity is a market failure—i.e., the food and [beverage industry](#) is not an efficient market where people act optimally in society's interests.

Consumers, especially children, are not well-informed about the causes of [weight gain](#) nor the long-term consequences of being obese, Karnani says. There's also an externality at work—obesity harms not only individuals but also the greater society through higher health care and insurance costs.

Market failures, he says, are typically addressed by corporate [social responsibility](#), industry self-regulation, [social activism](#) and [government intervention](#).

The study shows that three of these components—[corporate social responsibility](#), self-regulation and social activism—have largely failed. Some forms of government intervention show promise, but many are unpopular and fraught with politics.

Corporate social responsibility efforts from the food and beverage industry have fallen short, Karnani and colleagues argue, and might even exacerbate the problem. Industry messaging often focuses on physical activity as the main culprit of weight gain, when science shows diet is the primary driver. Likewise, industry self-regulation has been ineffective, as evidenced by the amount of unhealthy food that continues to be marketed to children, Karnani says.

Social activism hasn't resonated in the way it has with anti-tobacco campaigns and efforts to curb drunken driving, he says. Activism also runs the risk of shaming overweight people, which is cruel and counterproductive.

That leaves government intervention. One effective step in other countries has been banning or severely restricting food advertising to children. It's been done in Sweden, Norway, Quebec and the U.K. One study showed fast-food consumption in Quebec decreased as a result.

"Restrictions on advertising have demonstrable effects on consumer demand, especially when it comes to children," Karnani said. "They cannot be expected to discern the best choices for themselves, especially for the long term. And studies show childhood obesity leads to adult obesity."

Other countries and some local governments in the U.S. have tried sugar taxes, fat taxes, soda taxes and bans on trans fat. These strategies have yielded mixed results because the outcome varies based on what is taxed and how much, Karnani says.

The problem with the effective government interventions is that they are politically unpopular, especially in the U.S., he says. But the individual and societal costs have risen to the point where unpopular measures might be necessary.

"The industry lobbies hard against any government regulation, and the American public isn't fond of them, either," Karnani said. "People want to be left alone to exercise their good judgment. That's usually the best case, but when it come to obesity the market is failing them. We think reasonable [government regulation](#) is a possibility once we have a public discussion rooted in data and logic."

Provided by University of Michigan

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