

POLICY FOCUS

Soda Taxes

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

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WHAT YOU NEED TO KNOW

Philadelphia Mayor Jim Kenney (D) recently proposed a **3-cent-per-ounce tax on sugar-sweetened bottled drinks** and a **4.5-cent-per-ounce tax on fountain drinks** bought within city limits. This will add 36 cents to the cost of a 12-ounce can of soda and 54 cents to a fountain drink of the same size. The Mayor claims this tax will reduce obesity rates and generate \$400 million in revenue over five years. The Mayor plans to use this tax windfall to fund universal pre-kindergarten, new community schools, infrastructure projects, and the city's pension fund.

Yet research on the efficacy of soda and other drink taxes suggests that they do little to reduce obesity or encourage people to make healthier choices. In fact, studies show that when soda is taxed, people simply substitute equally calorie-filled beverages that aren't subject to the tax.

The Mayor touts this measure as a means to fund social programs, but ignores that this tax will primarily burden lower-income individuals and will also hurt local businesses, as consumers take their business outside city limits to avoid the tax.

City officials can find better ways to fund programs and infrastructure projects, such as by cutting wasteful and duplicative spending. They should reject this wrong-headed, regressive new tax and trust individuals to make decisions about what to drink and eat without government interference.

WHY YOU SHOULD CARE

Government efforts to tax people into healthier habits can backfire on Americans. In particular, soda taxes:

- **Harm the Poorest Americans:** Soda taxes are regressive, which means, they **cost the poorest citizens the most**.
- **Lead to Higher Food Costs:** According to the **USDA**, grocery prices are expected to rise an additional 2 to 3 percentage points in 2016. Soda taxes will increase costs further, hurting the poor as well as local grocery stores, which may lose customers as shoppers seek to avoid the tax by going outside of city limits.
- **Facilitate Government Waste:** Politicians use “sin taxes” like this soda tax to collect more money from taxpayers, which allows them to avoid using existing resources more efficiently.
- **Fail to Combat Obesity:** When soda is taxed, people simply substitute non-taxed beverages that are just as high in sugar and calories—such as fruit juices, alcohol, dairy-based beverages and coffee drinks.
- **Eat Away Our Freedoms:** Individuals, not government bureaucrats, should decide what to eat and drink. Government has no business trying to influence Americans’ food decisions.

MORE INFORMATION

In 1886, American John Pemberton, a civil war veteran and pharmacist, invented a beverage that he claimed could cure fatigue, headaches and many other ailments. This beverage would eventually become known as Coca-Cola, and the company would soon become the largest beverage company in the world. Fast forward 130 years: the industry spawned by Pemberton is now blamed for many of America’s health problems, and consumers are being encouraged to give up cola. That’s quite a turnaround for a product originally marketed as medicine.

Yet, soda remains popular with one demographic: Politicians eager to rake in revenue by taxing soda and other sugar-sweetened beverages. To date, 23 states have imposed special taxes on soda and other sugar-sweetened drinks, and now some cities are getting in on the game. Washington D.C. and Berkeley just implemented soda taxes, and Philadelphia has proposed the largest beverage tax ever.

Americans should reject these measures, which fail to produce better health outcomes, burden already cash-strapped lower-income Americans, and enable politicians to avoid cutting wasteful government spending.

A Soda-Obesity Connection?

Nutritionists and doctors tend to agree that obesity is caused by a variety of factors, including diet, genetics, level of activity, and other lifestyle choices. Headlines about soda consumption as a leading driver of America's growing girth ignore that soda consumption hasn't been rising. In fact, since the mid-1990s, U.S. sales of full-sugar sodas have declined more than 25 percent, while sales of water and other soda alternatives have increased.

Most Americans aren't guzzling enormous quantities of empty calories by drinking soda throughout the day. According to a **2012 Gallup Poll** on American consumption habits, 48 percent of Americans drink some soda each day, with the remaining 52 percent saying they do not drink soda at all on the average day.

Among the 48 percent of those who do drink soda, only 20 percent (that comes to 9.6 percent of all Americans) reported drinking two or more glasses of soda per day. Yet Gallup also found that those who frequently drank soda were no heavier than those who avoided soda altogether — a direct strike against the claim that soda consumption drives obesity.

As for obese consumers—ostensibly the target of soda taxes—research suggests most aren't drinking full-sugar drinks at all. A **2011 Northwestern University study** revealed

that obese individuals typically buy diet soda. Lead researcher Ketan Patel explained how taxing soda doesn't even affect the obese: "After doing the analysis, it really turns out to be the case that obese people like diet soda so much more than regular soda that you can do whatever you want to the price...You're not going to get that much change in obese people's weight because they already drink diet soda."

Similarly, **researchers from Pennsylvania State University** examined weight data from 20,000 children attending schools that sold soft drinks in vending machines and found the percentage of students who were overweight or obese did not increase from fifth to eighth grade. In fact, despite the increased availability of soda and snack foods, the percentage of students who were overweight or obese **actually decreased during these years, from 39.1 percent to 35.4 percent**. And a **University of Chicago study** found that taking soda out of school vending machines can actually have an unfavorable effect. Children attending schools without soda in their vending machines were found to drink more soda and eat more unhealthy snacks than kids where soda was available.

Who is drinking full sugar beverages? According to this 2010 **National Institute of Health study** on soda consumption, teenage boys are the biggest consumers of these drinks. So, in effect, the city of Philadelphia

will be primarily taxing teenagers and relying on them to fund their city's educational and infrastructure needs.

The Replacement Effect

Politicians assume that by making soda more expensive, soda taxes will encourage people to buy them less frequently and will therefore reduce obesity. Unfortunately for them, human beings often respond to these changed incentives in other ways.

Researchers at Dartmouth University studied a community that had imposed a high tax on soda and found that, while soda sales did indeed decline, consumers simply substituted to another beverage—beer. This is hardly what the champions of health had hoped to achieve.

In addition to substituting one unhealthy choice for another, consumers can respond to a sin tax by changing where they purchase the products, rather than cutting it out of their lives. For example, the government in Denmark imposed a tax on saturated fat in 2011 in hopes of improving citizens' health. Yet they found that consumers eager for their favorite fatty foods simply started crossing the border to shop in Germany where there wasn't a tax. This came at a crippling cost to Danish businesses, and the **fat tax was repealed** in 2013.

Philadelphia's soda tax is particularly vulnerable to witnessing both of these substitution practices. The **Mercatus Center** compared the calorie count of soda to

popular non-taxed alternatives (beer, wine, milk and chocolate drinks) and found soda to be one of the lower calorie drinks. So, in effect, a tax on soda may drive people to choose even healthier or higher-calorie options. Philadelphia's proximity to other lower-tax shopping areas and states like Delaware will also make it likely that many shoppers (particularly those with higher incomes, who have the means to travel with ease) will take their business outside the city limits.

Even more frustrating for soda scolds, sometimes the price hike due to these taxes doesn't even make it to consumers. As **a study from the National Bureau of Economic Research shows**, consumers are only seeing a fraction of price increase on sodas because many retailers are simply absorbing the tax in order to retain sales.

Mixed Nutrition Message

Philadelphia Mayor Jim Kenney claims his soda tax will raise \$400 million to be used on a variety of new programs—including a new universal pre-K program. Yet, city residents should wonder: Is this a reliable and sustainable source of funding when the very point of these taxes is to reduce sales of the product that's being taxed? Logic clearly says no.

Mayor Kenney has admitted he expects soda sales will decline due to the tax. If sales of soda do decline, then there will be less tax revenue for the programs the Mayor

hopes to establish. Taxpayers are likely to find that the government will look for another source of revenue to sustain these programs when revenues from the soda tax fizzle.

Taxpayers ought to also consider what policymakers may target next for such sin taxes in the name of promoting better health. While non-soda drinkers may not be subject to this proposed tax, the Mayor could easily target other indulgences, such as pizza, beer, or nachos, for their own special tax. Or perhaps the Mayor could propose a tax on those famous Philadelphia cheesesteaks that come in at a much higher calorie total than a glass of soda.

Policymakers should also consider the muddled message that's created when these taxes are put in place. On the one hand, the city is penalizing consumers for purchasing items it deems unhealthy. On the other hand, the city is relying on these tax revenues to fund these social programs.

Conclusion

Politicians like to tell people how to live and eat and behave, but Americans should be trusted to live their lives the way they see fit. Paternalistic soda taxes fail to achieve their purported health goals. While there may be worthy government programs that deserve funding, leaders should better prioritize these projects and cut the wasteful and duplicative programs that already exist.

Politicians must also be consistent in their nutrition messages and end the practice of raising money off the very behaviors they are trying to prohibit.

Case Study: Mexico

In 2014, the Mexican government imposed a nationwide one-peso-per-liter tax on sugary beverages, resulting in a 10-percent price increase for sodas and other sugary drinks. Soda sales in Mexico declined slightly; anti-soda advocates rejoiced. Wired magazine **declared** that the Mexico tax was working and that “America should wake up.” The New York Times editorial board beamed, **saying**, “The Mexican example should help persuade lawmakers in the United States to consider comparably stiff taxes.”

Yet, while soda sales have declined around 6 percent, this translated into very little caloric savings. As **Christopher Snowden of the Institute for Economic affairs writes:**

Early evidence from Mexico suggests that a ten per cent tax on sugary drinks led to an average daily decline in consumption of 36ml per person (Colchero et al. 2016). As Tom Sanders, a professor of nutrition and dietetics, notes, this is the equivalent of 16 calories and is a drop in the caloric ocean.

This is yet more evidence that soda taxes fail to meaningfully reduce people's calorie consumption and mostly benefit one constituency: politicians eager to posture as health advocates in order to collect more tax dollars.

WHAT YOU CAN DO

- **Get Informed:** Learn more about sin taxes, food and nutrition issues. Visit:
 - The Independent Women's Forum
 - The Tax Foundation
 - The Cato Institute
 - The Competitive Enterprise Institute
- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.
- **Become a Leader in the Community:** Get a group together each month to talk

about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

- **Remain Engaged Politically:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

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