Taxing sugary drinks

Stopping slurping

Taxes on fizzy drinks seem to work as intended

Nov 26th 2015

AROUND the world, governments and beverage makers are locked in battle over taxes on sugary drinks. Hungary has been taxing them since 2011. In 2012 the French government introduced a tax on all drinks with added sugar or artificial sweetener, now €0.075 ($0.08) a litre. The Mexican government followed suit last year, with a tax of 1 peso ($0.06) a litre on all sugary drinks. Chile and the city of Berkeley, California introduced similar measures in January; Barbados followed suit in June and Dominica in September.

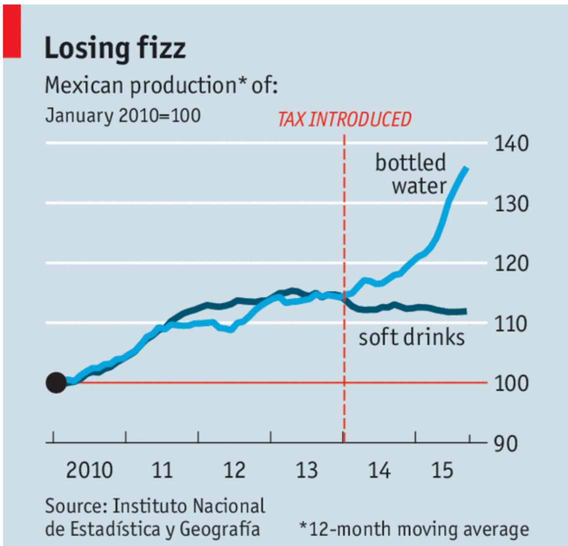
The drinks industry has won some victories too, seeing off proposals for taxes on sugar in several American states and persuading the Slovenian government to backtrack on plans to impose a 10% tax on sweetened drinks last year. In 2013 Denmark repealed its tax on soft drinks and ditched plans for a broader sugar tax.

Governments are adopting the taxes in the hope of trimming bulging waistlines and slowing the rise in diabetes, which cost taxpayers vast sums in spending on health care. Mexicans, for instance, are the fourth-biggest guzzlers of sugary drinks in the world, according to Euromonitor, a market-research firm. In 2012 more than 70% of Mexican adults and 34% of 5–11-year-olds were overweight. Diabetes is a growing problem: 12% of Mexicans have it, and it was behind 14% of all deaths in 2009. In response, the beverage industry argues that it is not the government's business to decide what people should eat and drink. Pinning the blame for the world's increasingly greedy and sedentary ways on sugary drinks is unfair, they add.

Whether taxes on drinks actually have an effect on consumers is a separate question. Some worry that retailers may absorb the tax rather than passing it on to customers, thereby obscuring the signal governments are trying to send; others, that higher prices will not lead to a change in behaviour, but will simply sap the incomes of the poor in particular.

There is little evidence to support these fears, however. A working paper by economists at the French central bank, the Sorbonne and the University of Paris-Est Créteil found that retailers passed on nearly all of the French tax. A working paper on the Mexican tax by Raymundo Miguel Campos-Vázquez and Eduardo Medina-Cortina of the Colegio de México, a university, finds that retailers there went even further, raising prices for soft drinks by 30% more than the real value of the tax.

Higher prices, in turn, do seem to have crimped demand for fizzy drinks. FEMSA, Coca-Cola's Mexican bottler, blamed declining sales in 2014 on the price jump that followed the introduction of the tax. A monthly manufacturing survey found that overall sales of fizzy drinks fell by 1.9% in 2014, having increased by an average of 3.2% a year over the previous three years (see chart). Another study, based on household surveys rather than industry data, shows an even stronger effect: it found that consumption of sugary drinks fell by 6% relative to pre-tax trends over the tax's first year. Some data suggest that Mexicans switched to healthier alternatives. The manufacturing survey shows that sales of bottled water jumped by 5.2% in 2014.



Not all the evidence from Mexico is in the tax's favour, however. Researchers at the Mexico Autonomous Institute of Technology, who had previously collaborated with the industry on a report into the tax's effects, found that the reduced consumption of sugary drinks thanks to the tax only saved Mexicans five calories a day on average, and what is more, the poor did end up losing a bigger share of their income to the tax than the rich.

However, according to Barry Popkin of the University of North Carolina, low-income households were the most responsive to the tax, cutting their consumption of sugary drinks by 17% within a year of its introduction. That means the poor will gain greater health benefits from the tax. That is especially important since they are hit harder by obesity and diabetes, as they have less access to health care.

Although the academic evidence suggests that taxes on sugary drinks are working as intended, it also indicates that bad design can undermine much of the benefit. For one thing, relatively high taxes are needed to change consumer behaviour. Various states in America have had extra sales taxes on fizzy drinks, of 3–7%. This has helped to raise revenue, but the impact on consumption has been marginal.

It is also hard to impose a tax on sugary drinks when customers can easily shop elsewhere. Retailers in Berkeley passed on less than half of the city's tax, reckon John Cawley of Cornell University and David Frisvold of the University of Iowa, presumably for fear that customers would drive to neighbouring cities to buy their groceries.

Taxes also work better if they distinguish between different degrees of sugariness. Hungary's tax, which also applies to salt and fat, varies according to the amount of offending ingredient used. A review of the policy found that 40% of manufacturers had adjusted their recipes accordingly.

This fits with the inclination of the drinks industry, which has been experimenting with less sugary drinks. Coca-Cola, for instance, recently launched a product called "Coca-Cola Life", which is made with a mix of sugar and stevia, a calorie-free sweetener. Yet France taxes sugary and diet beverages alike, giving the industry little incentive to make its drinks healthier. Mexico taxes all drinks that contain any added sugar at a flat rate.

Such examples may help governments design more effective taxes on fizzy drinks. But in one crucial respect, the evidence is wanting. The taxes have not been in place long enough to assess their impact, if any, on public health. A proven benefit would really sugar the pill for wary politicians.