Study—Berkeley soda tax falls flat

August 18 2015, by Ted Boscia

A Cornell-University of Iowa analysis of a soda tax passed last fall by voters in Berkeley, California – the first such city ordinance in the country – found the measure so far has fizzled, raising retail prices for high-calorie sugary drinks by less than half the amount expected.

The law, which took effect this March, imposes a penny-per-ounce tax on distributors of sugar-sweetened beverages, such as soft drinks, energy drinks and presweetened teas. Distributors pay 20 cents per 20-ounce bottle of Coke, for instance. Tax proponents expected the extra cost to result in higher prices for shoppers, which would discourage soda consumption.

To date, however, consumers have been largely spared from higher prices, researchers found. On average, prices for beverages covered under the law rose by less than half of the tax amount. For Coke and Pepsi, only 22 percent of the tax was passed on to consumers. The findings, by economists John Cawley of Cornell and David Frisvold of the University of Iowa, appear in the *National Bureau of Economic Research* working paper, "The Incidence of Taxes on Sugar-Sweetened Beverages: The Case of Berkeley, California," published Aug. 17.

"In light of the predictions of the proponents of the tax, as well as in light of the previous research, we expected to see the tax fully passed through to consumers," said Cawley, professor of policy analysis and management and of economics in Cornell's College of Human Ecology. "In contrast, we find that less than half, and in some cases, only a quarter of it is. This is important because the point of the tax was to make sugar-sweetened beverages more expensive so consumers would buy, and drink, less of them."

So-called "sin taxes" are designed to improve public health by discouraging people from purchasing unhealthy products. Smoking rates, for instance, have plummeted in the United States in recent decades partly due to federal, state and local taxes that have driven up cigarette costs. Berkeley officials hoped that the soda tax would raise prices and lead residents to avoid energy-dense sugar-sweetened beverages, considered a culprit for high rates of obesity and chronic disease.

"The reason for this surprising result could be related to the fact that it's a city tax and therefore store owners have to be concerned about the ability of consumers to shop at stores outside of Berkeley," Cawley said. "Concerns about cross-border shopping could contribute to a low pass-through of the tax."

For the study, the research team visited nearly all Berkeley groceries, supermarkets, pharmacies, convenience stores and gas stations and recorded prices for a wide variety of products. They collected data from a comparable sample in nearby San Francisco, where a ballot initiative to impose a soda tax failed last fall. The researchers compared price changes for regular and diet drinks – which were untaxed – in both cities from before (Dec. 2014) and after (June 2015) the tax took effect.

The study, authors note, offers several advantages over previous research on soda taxes in other nations. It's the first to collect extensive store-level data on prices before and after a tax on regular and diet drinks and it includes a neighboring control location to account for trends in prices over time.

Revenue collected from the tax – projected to be $1.2 million in the first year – goes into a Berkeley general fund, part of which has been earmarked for healthy living programs. Though the tax does not yet appear to be raising prices, the authors note that the idea has merit.

"There is an economic rationale for taxes when consumption of the good imposes negative externalities, and obesity costs taxpayers billions each year in medical care costs in the U.S.," Cawley said. "A sugar-sweetened beverage tax is a very narrow approach to internalizing the external costs of obesity, because there are many other food and drink items that are also energy dense and lack nutritional value. But to the extent such a tax helps internalize the external costs, there is an economic rationale for it."

More information: "The Incidence of Taxes on Sugar-Sweetened Beverages: The Case of Berkeley, California." www.nber.org/papers/w21465

Provided by Cornell University

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