

## Soda prices may only partly bubble up if taxes pass

November 3 2016, by Susan Kelley

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Four cities will be voting Nov. 8 on whether to tax soda and other sugar-sweetened beverages. Some proponents say the taxes would raise prices by exactly the amount of the tax, encouraging consumers to cut down on soda and improve their health.

But research shows that prices might rise by only half that amount – or even less, says a Cornell economist who studied a similar tax imposed in Berkeley, California.

"Our research suggests that these taxes may be only partially passed on to [consumers](#) in the form of higher prices," says John Cawley, professor of policy analysis and management and of economics. His research in Berkeley found that prices there rose by only 43.1 percent of the tax.

This limited price increase is consistent with consumers being sensitive to prices, Cawley clarifies. If consumers were insensitive to price, then suppliers would shift all of the tax to consumers. "So, the limited price increase resulting from the tax should not be seen as a failure but as evidence that consumers are responding to the policy," Cawley said.

The tax in Berkeley was the country's first on sugar-sweetened beverages for [public health](#) purposes. It was seen as a bellwether for similar taxes now on the November ballot in the California cities of Albany, Oakland and San Francisco as well as in Boulder, Colorado.

The study also found the closer a store was to an untaxed rival, the less it

passed the taxes on to consumers. This may be due to store owners being concerned about customers shopping outside of Berkeley to avoid the taxes, Cawley added. "That may well be a factor for other city-level taxes as well," he noted.

Cawley's research, "The Pass-Through of Taxes on Sugar-Sweetened Beverages to Retail Prices: The Case of Berkeley, California," was published Oct. 24 in the *Journal of Policy Analysis and Management*. His co-author is David Frisvold of the University of Iowa.

Cawley and Frisvold collected price information on various sizes of the most frequently consumed sugar-sweetened drinks – Coke, Pepsi, Mountain Dew, Gatorade, Red Bull and Snapple iced tea – at stores in Berkeley before and three months after the tax took effect in early 2015. They also collected prices in San Francisco – which did not have a [soda](#) tax – as a control.

The Berkeley tax, which is still in effect, requires soda distributors pay the city 1 cent per ounce whenever they deliver soda to a Berkeley store. That translates to an extra 20 cents for a 20-ounce bottle, and \$1.44 for a 12-pack of 12-ounce cans. As in Berkeley, the tax in Oakland and Albany, California would be 1 cent per ounce. The tax in San Francisco and Boulder would be 2 cents per ounce.

Philadelphia has already passed a 1.5-cent per ounce tax on sugar-sweetened and also, interestingly, diet drinks. The tax is not as a public health measure but simply a way to raise revenue. That tax is slated to take effect Jan. 1, 2017.

Taxes on [sugar-sweetened beverages](#) are a step in the right direction, Cawley said, if the goal is to reduce the societal costs associated with diet-related health problems such as obesity and diabetes.

But the design could be improved, he said.

Narrow taxes like the one on soda allow consumers to switch to untaxed energy-dense foods. A better alternative is a broader tax that would include all high-calorie, low-nutrition foods, such as candy bars and cookies. And ideally it would take effect across the country, he said. "In general, it's harder to avoid a tax when it's nationwide than when it's just in one city."

He also suggests restricting how people can spend benefits from the Supplemental Nutrition Assistance Program (SNAP), formerly known as the Food Stamp Program. Energy-dense foods could be excluded, but people would have the same dollar benefit to spend on healthier items, he said.

"When we have an obesity epidemic and high rates of diabetes, it doesn't make sense for a government program to offer free soda," he said.

**More information:** John Cawley et al. The Pass-Through of Taxes on Sugar-Sweetened Beverages to Retail Prices: The Case of Berkeley, California, *Journal of Policy Analysis and Management* (2016). DOI: [10.1002/pam.21960](https://doi.org/10.1002/pam.21960)

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