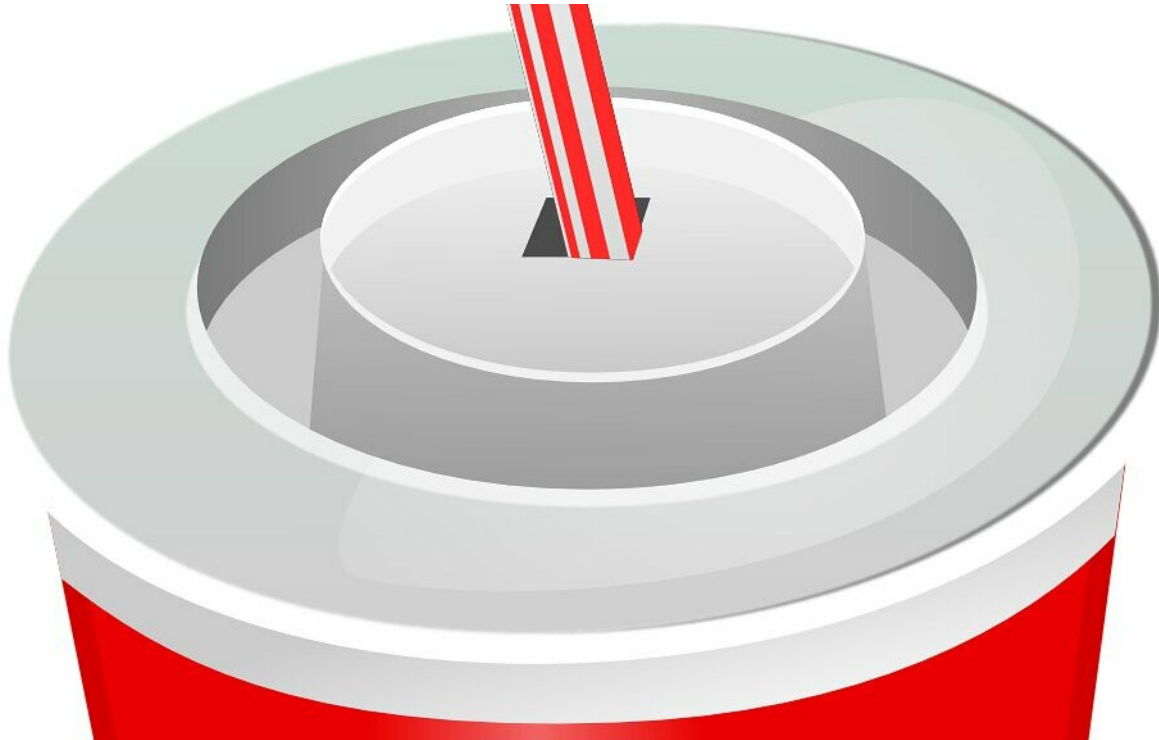


Economists find net benefit in soda tax

May 20 2019



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A team of economists has concluded that soda taxes serve as a "net good," an assessment based on an analysis of health benefits and consumer behavior. The work, which sees advantages similar to those of long-standing cigarette taxes, also offers policy parameters that it views as more effective than many existing soda taxes.

The analysis, by researchers at New York University, the Wharton School at the University of Pennsylvania, and the University of California, Berkeley, was released today as a National Bureau of Economic Research (NBER) working paper.

"The research is clear that sugary drinks are bad for our health," observe NYU's Hunt Allcott, Wharton's Benjamin Lockwood, and UC Berkeley's Dmitry Taubinsky, the papers' authors. "Our study takes a next step to evaluate the overall economic rationale as to whether we should impose a tax. Using an economic framework, we show that taxing [soda](#) generates net benefits to society—taking into account the [health effects](#), the enjoyment that people get from [drinking](#) the drinks they enjoy, the value of the tax revenues, and other factors."

The research estimates that a nationwide soda tax would yield \$7 billion in net benefits to society each year.

The research also considers concerns about regressivity.

"We estimate that soda taxes benefit both low- and high-income people," the researchers say. "While low-income people drink more sugary drinks and thus pay more in soda taxes, their health also benefits more from drinking less."

The researchers also find that state-level taxes would be even more effective than city-level taxes, such as those implemented in San Francisco, Philadelphia, and other U.S. cities.

"Soda taxes would yield more benefit at the state level than they would at the city level, both because they cover more people and because buying tax-free soda just outside the city, which some people do, dilutes the benefits of a tax," the authors observe.

Arizona, California, Michigan, and Washington have passed legislation or referenda banning their cities from adopting new soda taxes. The papers' findings suggest that these bans are not economically justified.

Their conclusions on the societal benefits of soda taxes are based on the following:

- Much like the cars emitting pollution that harms others, sugary drinks are linked to diabetes, obesity, and heart disease, resulting in medical bills ultimately paid by taxpayers through Medicare and Medicaid, or by private insurers. The researchers estimate that, on average, drinking a 12-ounce can of Coke will impose about 10 cents of health care costs on others.
- Fifty-three percent of Americans who consume sugary drinks say they do so "more often than I should," according to a previous survey, which suggests that soda taxes help people reduce consumption toward the level they want for themselves. In addition, people with high nutrition knowledge drink many fewer sugary drinks, indicating that soda taxes help people reduce consumption toward the level they would choose for themselves if they were fully informed about the health impacts.
- Previous studies have shown that low-income people bear the brunt of diabetes, obesity, and heart disease—afflictions linked to consumption of sugary drinks—so they would likely benefit the most from drinking fewer of these beverages. Furthermore, low-income people have lower nutrition knowledge and are more likely to report drinking soda "more often than I should."

The work also offers guidelines for making existing soda taxes more effective while acknowledging finding an optimal tax level requires additional study:

Noting that it's the sugar, not the water, that is unhealthy, the researchers

say that taxes should scale with the amount of sugar in a drink, not the volume of liquid. They calculate that the net benefits would be much larger at a tax rate of 0.5 cents per gram of sugar than at the standard 1 cent per ounce of liquid.

- Implementing taxes at the state or national level, instead of the current smattering of city-level taxes, would be more beneficial as it would diminish "cross-border shopping."
- The existing tax in Philadelphia includes diet drinks, even though the health harms from diet drinks are not clearly established, posing a financial burden while not offering a robust health [benefit](#). "Soda taxes should be limited to [sugary drinks](#), where the health evidence is more clear," the economists argue.
- The analysis shows that the standard 1-cent-per-ounce tax rate might be too low for a state-level tax to yield [health](#) and economic benefits and might be too high for a city-level tax in places with substantial cross-border shopping. "Because these estimates involve a number of assumptions, we need more research on this issue," the researchers write.

The studies, supported by the Alfred P. Sloan Foundation, will appear later this year in the peer-reviewed *Quarterly Journal of Economics* and the *Journal of Economic Perspectives*.

Provided by New York University

Citation: Economists find net benefit in soda tax (2019, May 20) retrieved 19 April 2024 from <https://phys.org/news/2019-05-economists-net-benefit-soda-tax.html>

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