



Beverage Tax Follies:

Three Ways That Soda Taxes Are Bad Policy

A Publius Foundation Policy Briefing

**By
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Executive Summary

Emulating Philadelphia Mayor Michael Nutter, Mayor Luke Ravenstahl proposed a sweetened-beverage tax of 2 cents-per-ounce in March and, although the Philadelphia tax is dead, the Pittsburgh Beverage Tax is still very much alive.

One in a series of taxes, fines and fee-hikes proposed by city politicians as a partial solution to Pittsburgh's pension crisis, the Pittsburgh Beverage Tax is an unresolved issue in local government.

Part of a broader legislative trend across the country, the Pittsburgh Beverage Tax is an attempt to quickly fill city coffers – the Ravenstahl Administration estimates yearly revenue at \$25 million – justified by the need to combat obesity. In this way, the tax poses a question to Pittsburghers: Do you want your government to control your personal habits through punitive taxation?

The Publius Foundation's answer to this question is no. Such a meddling approach to citizen's lives is not only an inappropriate use of government's power to tax, it is also bad economic policy the implementation of which threatens to harm local businesses and adversely impact the balance of the local economy during a recession.

This briefing examines the potential impact of the tax in three distinct areas:

- **Paternalism:** Ravenstahl and other proponents of the Beverage Tax justify it by saying that it is a necessary step in the fight against obesity. Such a paternalistic purpose – protecting Pittsburghers from themselves -- is not in keeping with the traditional role of representative government.
- **Efficacy:** Studies show that taxes like the Pittsburgh Beverage Tax fail to meaningfully reduce obesity levels. The only impact that this tax will have is a negative one on the city's economy.
- **Economic Impact:** The passage of such a tax could cost jobs and harm businesses inside the city during a tough economic time. The tax should also be understood as a measure that would distort the value of commodities in the local economy making, for instance, a case of soda cost more than a case of beer.

Paternalism

The sweetened-beverage tax proposed by Mayor Ravenstahl is foremost an attempt to raise revenue but the proposal is being justified as part of the struggle against rising obesity rates.¹ Ravenstahl's assertion that, through taxation, the government can and should intervene in the diets of area residents to reduce obesity levels constitutes an important statement about the role of government.

In essence, this is a paternalistic assertion that frames government as the solution to personal and familial problems. In this way, the Pittsburgh Beverage Tax is emblematic of a wave of

paternalistic legislation sweeping the nation that includes banning trans fats in Philadelphia, the Food and Drug Administration's attempt to regulate salt in processed food and the beverage taxes being considered in states from California to New York.

Accepting such taxes is an admission on the public's part that individual citizens are incapable of regulating key aspects of their daily lives and that government action to regulate those aspects is warranted. Such acceptance constitutes an abdication of the personal responsibility required of citizens in a republic. After all, as citizens of a republic, we are supposed to be directing the behavior of our government, not vice versa.

This civic consideration must be part of the public debate over the Pittsburgh Beverage Tax because the enactment of such a paternalistic tax would set the tone for our interactions with government in every area, from public safety to public works.

Efficacy

Understanding how the tax changes the role of local government is important because studies demonstrate that this might be the only change such a tax would produce. The key assertion made by Mayor Ravenstahl and the proponents of similar measures across the country is that the tax would lead to a meaningful reduction in obesity but that claim isn't demonstrated in relevant research.

Indeed, in a 5-year study funded by the Department of Health and Human Services, sugar-sweetened beverages were not shown to be positively associated with weight gain.² Published in 2009 in the *American Journal of Clinical Nutrition*, the study undermines the key assertion of beverage tax proponents: that sweetened-beverage consumption and obesity are positively linked.

What research does demonstrate is that calories are calories regardless of what foods they come from and that, from a health standpoint, the answer to the obesity epidemic is to reduce calorie intake not simply reduce the consumption of certain products.³ Furthermore, rather than support the conclusion that a beverage tax will meaningfully reduce obesity levels, research shows that physical activity is the best way to prevent and combat obesity especially among children.⁴

Importantly, the Beverage Tax proposal issued by Mayor Ravenstahl doesn't even assume that the tax will decrease soda consumption and instead estimates that the tax will yield a steady \$25 million a year.⁵ If the mayor's office seriously believed that the tax would decrease soda consumption, it wouldn't issue a flat estimate for yearly income but would instead suggest a steadily decreasing income from the tax as projected soda consumption declined.

Economic Impact

The numbers issued by the mayor's office reveal that the proposed tax is simply an attempt to raise revenue and the available research demonstrates that such a tax is not a serious piece of health policy with the potential to impact obesity.

What the tax can be expected to do, however, is have a variety of negative economic impacts on area residents and businesses, starting with the fact that it will disproportionately tax the poor. As Richard Williams and Katelyn Christ point out at the Mercatus Center, “Unless a good is disproportionately consumed by the rich, an excise tax on any specific commodity will be regressive.”⁶ This means that, assuming that the rich and the poor consume sweetened-beverages at the same rate, the poor spend a greater percentage of their income on sweetened-beverages and thus any tax on sweetened-beverages would represent a larger share of that income.⁷ In this way, the proposed Beverage Tax is best described as regressive.

As well as being a regressive tax, the proposed Beverage Tax has the potential to distort the balance of the local economy by drastically increasing the price of sweetened-beverages. For instance, if the proposed tax is enacted, a 24-pack of 12-ounce Pepsi cans that regularly costs \$5.99 would cost an additional \$5.76, almost doubling the cost to \$11.75.

Compare this to the cost of some brands of beer and the proposed sweetened-beverage tax would make soda cost more than beer on a case-per-case basis. For instance, a 24-pack of Anheuser-Busch Natural Light and Pabst Blue Ribbon would both cost less than a 24-pack of Pepsi at \$10.50 and \$11.50 respectively. Iron City comes in just above Pepsi at \$12 per 24-pack.

Such dramatic changes in the relative cost of soda constitute a radical distortion of the local economy to the point where the market is no longer based on perceived value but on government planning. An intervention of this sort is bound to have unintended consequences on spending and consumption as well as on the prices of other goods in the area.

But perhaps the most important economic impact of a tax such as the Pittsburgh Beverage Tax is that it is guaranteed to harm local businesses and slow job growth during an economic downturn. Because the tax only impacts Pittsburgh businesses and because the Pittsburgh area is a relatively porous one - with city neighborhoods in close proximity to non-city municipalities - it's reasonable to expect, for instance, that consumers in the city neighborhood of Carrick might do their shopping in the independent borough of Mt. Oliver in order to avoid the tax. Such a scenario can be applied to a number of neighborhoods in the city where residents only have to go a few blocks further to do their grocery shopping in a business not subject to the tax.

Another way that the tax could decrease revenue for area businesses is if soda consumption simply decreases because of the tax. Less spending on soda means less revenue for convenience stores, grocery stores and other vendors all over the city. Decreased revenue for such businesses either because people stop buying as much soda or they start shopping outside of the city could even mean less jobs will be created in the city as lost revenue means that these businesses are able to spend less money on personnel. Especially in a distressed economy with unemployment in the Pittsburgh area at 8.9 percent, it is difficult to imagine why the government would consider legislation that could slow job growth everywhere from grocery stores to restaurants.⁸

Conclusion

A tax such as the Pittsburgh Beverage Tax is simultaneously bad health policy and bad economic policy. It is first and foremost a regressive tax that threatens to harm local businesses and slow job growth at a time when unemployment in the Pittsburgh area stands at 8.9 percent.

Furthermore, projected revenue from the tax demonstrates that its proponents in the mayor's office don't expect it to seriously decrease soda consumption and accomplish its stated goal of reducing obesity. If the mayor's office was seriously interested in lowering area obesity rates it would have actually studied the issue in some depth and realized that the key to reducing obesity – especially in children -- is not punitive taxation but physical activity and overall calorie reduction.

Demonizing sweetened-beverages with talking points that aren't supported by science may fill city coffers but it won't positively impact the health of Pittsburghers or the fiscal health of Pittsburgh businesses. Rather than seek fast money by taxing tuition or soda, Pittsburgh politicians need to develop a serious plan to fund the city's pension obligations. Especially with unemployment at 8.9 percent, merging certain city and county services and reducing city spending makes a lot more sense than saddling Pittsburghers with new, burdensome taxes.

¹ Adam Brandolph, "Pittsburgh mayor's tax idea puts focus on sweet beverages," *The Pittsburgh Tribune-Review*. March 17, 2010.

² Vanselow MS, Pereira MA, Neumark-Sztainer D, Raatz SK. Adolescent beverage habits and changes in weight over time: findings from Project EAT. *American Journal of Clinical Nutrition* (2009); 90: 1489-1495.

³ Sacks FM, Bray GA, Carey VJ, Smith SR, Ryan DH, Anton SD, McManus K, Champagne CM, Bishop LM, Laranjo N, Leboff MS, Rood JC, de Jonge L, Greenway FL, Loria CM, Obarzanek E and Williamson DA. "Comparison of Weight-Loss Diets with Different Compositions of Fat, Protein, and Carbohydrates." *New England Journal of Medicine* 360.9 (2009): 859-873.

⁴ Pietiläinen KH., Kaprio J, Borg P, Plasqui, G, Hannele Y, Kujala UM, Rose RJ, Westerterp KR and Rissanen A. "Physical Inactivity and Obesity: A Vicious Circle." *Obesity* 16 (2008): 409-414.

⁵ Brandolph.

⁶ Williams R and Christ K. "Taxing Sins: Are Excise Taxes Efficient?" *Mercatus on Policy* 52 (2009): 1-4.

⁷ *ibid.*

⁸ Bureau of Labor Statistics. "Unemployment in the Pittsburgh Area By County -- March 2010." Released May 21, 2010.

About the Author and the Publius Foundation

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