

# HARD TO SWALLOW

**CHRISTOPHER SNOWDON** questions the wisdom - and effectiveness - of taxing sugary drinks...



**"You can't just point at things and tax them,"** said the singer Myleene Klass to Ed Miliband in a TV debate about the 'mansion tax' in 2014.

But of course you can. Governments can tax virtually anything. The only question is whether it makes sense for them to do so.

From an economist's perspective, the best tax is the one which causes the least disruption to economic

activity. Most people would agree that it is better to tax luxuries rather than essentials, and it is better to tax the rich than the poor.

If you are a politician, the best tax is the one that is least unpopular. Jean-Baptiste Colbert famously said that "the art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing."

When George Osborne announced the introduction of a tax on sugary drinks in 2016, he may have had this dictum in mind.

The tax comes into effect in April and may yet prove



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to be unpopular, but it was warmly welcomed by health campaigners and the celebrity chef Jamie Oliver.

As an anti-obesity policy, it is unlikely to work, even in theory. Sugary drink consumption in Britain has dropped by nearly 50 per cent since 2003, but this has not prevented a rise in obesity.

The tax may help consumption fall by a few more percentage points, but the effect on overall calorie intake can only be trivial in a country where less than three per cent of calories come from soft drinks.

Various 'fat taxes' and 'soda taxes' have been introduced over the years, but nowhere in the world have they led to a reduction in obesity.

Mexico was hailed as a great success story after it introduced a sugary drink tax in 2014 and reputedly saw a six per cent decline in sales.

Even if this figure is correct – and it has been contested – it amounts to just 16 fewer calories consumed per day, a drop in the ocean when an adult male needs 2,500 calories to maintain a normal weight. Unsurprisingly, there is no suggestion that obesity rates have declined.

A large body of economic evidence shows that

consumers respond to such taxes in a number of ways.

Most people do not change their shopping habits and simply take the hit. Some people purchase cheaper brands and shop in cheaper

stores. Others switch to untaxed substitutes such as fruit juice and milkshakes which are equally energy-dense.

People respond to incentives, but not usually in the way the government intends. As a consequence, the effect on their calorie consumption is negligible and the effect on their waistline is non-existent.

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Health campaigners could argue that the sugar tax is worthwhile even if it has no direct effect on obesity because its revenue is earmarked for school sports and breakfast clubs.

But whilst these may be beneficial projects, there is no obvious reason why they cannot be funded out of general taxation, especially when a hypothecated sugar tax will produce unpredictable and dwindling revenues over time.

Nor is there any obvious reason to tax sugary drinks rather than, say, ice cream or

chocolate. It could be argued that the government has to get money from somewhere and so it might as well target sugary drinks, but this sounds rather like pointing at things and taxing them.

In truth, the sugar tax was a political decision.

Osborne judged that plucking this particular goose would cause the least amount of hissing. He had organisations like Action on Sugar to back him up and he could present it as a health policy rather than a tax grab.

It is not yet clear whether it will cause significant economic disruption – probably not – but it is certainly regressive, not only because it takes a greater share of income from the poor, but because people on low incomes tend to buy more sugary drinks in the first place. Similar taxes in Denmark and Illinois were



repealed because they were seen to disproportionately hurt people on low incomes.

Perversely, this could be the true appeal of such taxes to governments. They give politicians the rare opportunity to tax people who we normally feel squeamish about taxing: the poor, the unemployed, even children.

Not only can they get away with it, they can feel virtuous about it •

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