Ounces of Prevention — The Public Policy Case for Taxes on Sugared Beverages

Kelly D. Brownell, Ph.D., and Thomas R. Frieden, M.D., M.P.H.

Sugar, rum, and tobacco are commodities which are nowhere necessities of life, which are become objects of almost universal consumption, and which are therefore extremely proper subjects of taxation.

Adam Smith, The Wealth of Nations, 1776

The obesity epidemic has inspired calls for public health measures to prevent diet-related diseases. One controversial idea is now the subject of public debate: food taxes.

Forty states already have small taxes on sugared beverages and snack foods, but in the past year, Maine and New York have proposed large taxes on sugared beverages and health outcomes tend to be conducted by authors supported by the beverage industry.² Sugared beverages are marketed extensively to children and adolescents, and in the mid-1990s, children’s intake of sugared beverages surpassed that of milk. In the past decade, per capita intake of calories from sugar-sweetened beverages has increased by nearly 30% (see bar graph); beverages now account for 10 to 15% of the calories consumed by children and adolescents. For each extra can or glass of sugared beverage consumed per day, the likelihood of a child’s becoming obese increases by 60%.³

Taxes on sugared beverages have been highly effective in reducing consumption, and data indicate that higher prices also reduce soda consumption. A review conducted by Yale University’s Rudd Center for Food Policy and Obesity suggested that for every 10% increase in price, consumption decreases by 7.8%. An industry trade publication reported even larger reductions: as prices of carbonated soft drinks increased by 6.8%, sales dropped by 7.8%, and as Coca-Cola prices increased by 12%, sales dropped by 14%.³ Such studies — and the economic principles that support their findings — suggest that a tax on sugared beverages would encourage consumers to switch to more healthful beverages, which would lead to reduced caloric intake and less weight gain.

The increasing affordability of soda — and the decreasing affordability of fresh fruits and vegetables (see line graph) — probably contributes to the rise in obesity in the United States. In 2008, a group of child and health care advocates in New York proposed a penny-per-ounce excise tax on sugared beverages, which would be expected to reduce consumption by 13% about two servings per week per person. Even if one quarter of the calories consumed from sugared beverages are replaced by other food, the decrease in consumption would lead to an estimated reduction of 80,000 calories per person per year — slightly more than 2 lb each year for the average person. Such a reduction in calorie consumption would be expected to substantially reduce the risk of obesity and diabetes and may also reduce the risk of heart disease and other conditions.

Some argue that government should not interfere in the market and that products and prices use techniques that exploit the cognitive vulnerabilities of young children, who often cannot distinguish a television program from an advertisement.

A third consideration is revenue generation, which can further increase the societal benefits of a tax on soft drinks. A penny-per-ounce excise tax would raise an estimated $1.2 billion in New York State alone. In times of economic hardship, taxes that both generate much revenue and promote health are better options than revenue initiatives that may have adverse effects.

Objections have certainly been raised: that such a tax would be regressive, that food taxes are not comparable to tobacco or alcohol taxes because people must eat to survive, that it is unfair to single out one type of food for taxation, and that the tax will not solve the obesity problem. But the poor are disproportionately affected by disease-related illnesses and would derive the greatest benefit from reduced consumption; sugared beverages are not necessary for survival; Americans consume about 250 to 300 more calories daily today than they did several decades ago, and nearly half of this increase is accounted for by consumption of sugared beverages; and though no single intervention will solve the obesity problem, that is hardly a reason to take no action.

The full impact of public policies becomes apparent only after they take effect. We can estimate changes in sugared-drink consumption that would be prompted by a tax, but accompanying changes in the consumption of other foods or beverages are more difficult to predict. One question
is whether the proportions of calories consumed in liquid and solid foods would change. And shifts among beverages would have different effects depending on whether consumers substituted water, milk, diet drinks, or equivalent generic brands of sugared drinks.

Effects will also vary depending on whether the tax is designed to reduce consumption, generate revenue, or both; the size of the tax; whether the tax is levied on the producer or the consumer; and whether the tax is on sugared beverages or all sugar-sweetened beverages. Even small taxes will generate substantial revenue, but only heftier taxes will significantly reduce consumption.

Sales taxes are the most common form of food tax, but because they are levied as a percentage of the retail price, they encourage the purchase of less-expensive brands or larger containers. Excise taxes structured as a fixed cost per ounce provide an incentive to buy less and hence would be much more effective in reducing consumption and improving health. In addition, manufacturers generally pass the cost of an excise tax along to their customers, including it in the price consumers see when they are making their selection, whereas sales taxes are seen only at the cash register.

Although a tax on sugared beverages would have health benefits regardless of how the revenue was used, the popularity of such a proposal increases greatly if revenues are used for programs to prevent childhood obesity, such as media campaigns, facilities and programs for physical activity, and healthier food in schools. Poll results show that support of a tax on sugared beverages ranges from 37 to 72%; a poll of New York residents found that 52% supported a “soda tax,” but the number rose to 72% when respondents were told that the revenue would be used for obesity prevention. Perhaps the most defensible approach is to use revenue to subsidize the purchase of healthful foods. The public would then see a relationship between tax and benefit, and any regressive effects would be counteracted by the reduced costs of healthful food.

A penny-per-ounce excise tax could reduce consumption of sugared beverages by more than 10%. It is difficult to imagine producing behavior change of this magnitude through education alone, even if government devoted massive resources to the task. In contrast, a sales tax on sugared drinks would generate considerable revenue, and as with the tax on tobacco, it could become a key tool in efforts to improve health.

**Table: Relative Price Changes for Fresh Fruits and Vegetables, Sugars and Sweets, and Carbonated Drinks, 1974-2005.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Price Index</th>
<th>Fresh Fruits and Vegetables</th>
<th>Sugar and Sweets</th>
<th>Carbonated Drinks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>2005</td>
<td>150</td>
<td>120</td>
<td>150</td>
<td>170</td>
</tr>
</tbody>
</table>

Data are from the Bureau of Labor Statistics and represent the U.S. city averages for all urban consumers in January of each year.

**Figure: Elasticity:** Big price increases cause Coke volume to plummet. Beverage Digest. November 21, 2008:3-4.

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Dr. Brownell is a professor and director of the Rudd Center for Food Policy and Obesity, Yale University, New Haven, CT. Dr. Finkel is the health commissioner for the City of New York.

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