The impact of World Health Organisation food and drink taxes on a typical household

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Summary

- The World Health Organisation (WHO) has called on governments to raise the price of sugar-sweetened beverages by twenty per cent and to increase taxes on alcohol. It also supports taxes on food that is high in sugar, salt and/or fat. Michael Bloomberg, a WHO Ambassador, has set up the Task Force on Fiscal Policy to lobby for such taxes.
- 'Sin taxes' of this kind raise the cost of living and are financially regressive. If all food and drink products that WHO regards as 'unhealthy' were subject to a twenty per cent tax, the cost of a typical basket of goods would rise by £458 a year in the UK, $612 a year in the USA, €546 a year in Italy and €607 a year in Ireland.
- The overall cost to consumers each year could be £12.4 billion in the UK, $72 billion in the USA, €13.5 billion in Italy, and €1 billion in Ireland.

Background

After a tax on sugar-sweetened beverages was introduced in Britain last month, campaigners wasted no time in calling for it to be extended to milkshakes (Donnelly 2018), coffee (Geddes and Smyth 2018) and all food products that contain added sugar (Petkar 2018). The World Health Organisation (2017a: 3) recommends that sugary drinks be taxed at twenty per cent, claiming that this 'can lead to a reduction in consumption of around 20%, thus preventing obesity and diabetes' although there is no evidence that obesity rates have been affected by such taxes to date. WHO also recommends higher taxes on alcohol as one of its 'best buys' (WHO 2017b: 9) and supports 'taxation of target foods', by which it means food that is high in sugar, salt and fat (WHO 2016: 9). It claims that 'food taxation' has shown 'promising results' in countries such as Hungary (World Health Organisation 2016: 14).

WHO is working closely with the businessman Michael Bloomberg who has spent millions of dollars campaigning for soda taxes in several US states. Since being made a WHO Ambassador for Noncommunicable Diseases in 2016, the American billionaire has lobbied for taxes on food and drink to be adopted globally in an attempt to reduce obesity rates. He recently founded the

Task Force on Fiscal Policy to promote higher taxes on products that can be unhealthy if consumed in excess. Earlier this year, the *Lancet* journal devoted an entire issue to this campaign. It included an editorial by Larry Summers, co-chair of Bloomberg's Task Force, who promised that his organisation would 'engage the public, finance ministries, and others' in making the case for higher taxes on a number of fast-moving consumer goods (Summers 2018).

On Sunday 20th May, Michael Bloomberg and the World Health Organisation will be hosting an invitation-only event in Geneva to encourage national leaders to implement more taxes on food and drink.[1] This is part of a growing campaign to put taxation at the heart of WHO recommendations when it holds its High Level Meeting on Noncommunicable Diseases in New York on 27 September 2018.

Financial impact of sin taxes

It is well established that excise taxes and sales taxes are financially regressive - they take a greater share of income from the poor than from the rich. In Britain, for example, people in the poorest decile spend 34 per cent of their disposable income on indirect taxes, including 2.9 per cent on tobacco duty and 2.0 per cent on alcohol duty. For those in the richest decile, the equivalent figures are just 14 per cent, 0.1 per cent and 0.9 per cent (Office for National Statistics 2017).

For Bloomberg, the regressive nature of sin taxes is a feature, not a bug. In a recent event at the International Monetary Fund (2018), he said:

> *'Some people say taxes are regressive but in this case - yes, they are. That's the good thing about them. Because the problem is in people that don't have a lot of money, so higher taxes should have a bigger impact on their behaviour and how they deal with themselves.'*

But sin taxes are a reliable source of revenue precisely because they do not make people 'deal with themselves'. For the most part, they simply raise the cost of living. Ostensibly, they are intended to reduce consumption of demerit goods and indirectly improve health, but they come with obvious costs. All of the products being targeted are price inelastic. Those who wish to

[1] https://ncdalliance.org/sites/default/files/WHA71%20Side%20Events%20Calendar_NCDs%20-%20external%204%20May.pdf

achieve their optimal level of consumption (as judged by themselves) will be forced to pay significantly more.

The cost of WHO/Bloomberg taxes on food and drink to a typical household

Given WHO's repeated recommendations for new and/or increased taxes on food, non-alcoholic beverages and alcohol, the Institute of Economic Affairs (IEA) has calculated the impact on household consumption in four countries where consumption data are available.

The table below shows the impact on the price of a typical basket of goods purchased by a typical household if WHO/Bloomberg succeed in raising the price of 'unhealthy' food and drink by their preferred rate of twenty per cent. It does not include tobacco.

	Food taxes (week)	**Alcohol taxes (week)**	**Weekly total**	**Food taxes (year)**	**Alcohol taxes (year)**	**Annual total**	**Annual total (£)**
United Kingdom	£7.16	£1.64	**£8.80**	£372.50	£85.28	**£457.78**	**£458**
United States	$7.64	$4.12	**$11.76**	$397.50	$214.24	**$611.74**	**£451**
Ireland	€9.42	€2.25	**€11.67**	€489.94	€116.79	**€606.73**	**£534**
Italy	€9.60	€0.89	**€10.49**	€499.33	€46.33	**€546.66**	**£481**

A typical household is defined as a family of four (two adults, two children). A food or soft drink is classed as 'unhealthy' (and therefore subject to tax) if it is classified as being high in fat, sugar or salt in the World Health Organisation's nutrient profile model (see WHO 2015: 5). See 'Data Sources and Methodology' below for details on how a typical basket of goods is defined.

The scenario above is based on a household that chooses to buy the same basket of goods post-tax as it did pre-tax. In practice, the price effect would lead to lower consumption and therefore less expenditure on the targeted items. However, as the goods in question are generally price inelastic, a twenty per cent price rise would lead to sales falling by less than twenty per cent. Moreover, any reduction in spending on the targeted products would not necessarily be money 'saved' by consumers as they would usually buy other products as substitutes.

Conclusion

The kind of taxes on food and drink proposed by WHO and Michael Bloomberg would lead to a significant increase in the cost of living for consumers in all the countries we studied. Estimates range from $612 (£451) in the USA to €607 (£534) in Ireland. The nature of the taxes would inevitably hit poorest households hardest. Our analysis is confined to four rich countries; the impact would be even more severe in developing countries.

Overall, the range of sin taxes proposed by WHO and Bloomberg - excluding tobacco - could cost consumers in the United Kingdom £12.4 billion per annum in additional tax. In the United States, the cost could be $72 billion. In Ireland and Italy the cost could be €1 billion and €13.5 billion respectively.

Data Sources and Methodology

United Kingdom: For food, non-alcoholic beverages, and alcohol, we have calculated the impact of a twenty per cent tax on current consumption of potentially taxed categories as reported by the UK Office of National Statistics. (https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/financialyearending2017 and https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/expenditurebyhouseholdcompositionuktablea23).

United States: For food and non-alcoholic beverages, the US Department of Agriculture has developed budget allocations for what it considers 'nutritious' diets (https://www.cnpp.usda.gov/USDAFoodPlansCostofFood) and the food purchases that would meet those recommendations (https://www.cnpp.usda.gov/sites/default/files/usda_food_plans_cost_of_food/FoodPlans2007AdminReport.pdf). We have calculated the impact of a twenty per cent tax on food categories potentially subject to Bloomberg recommendations for USDA's 'moderate-cost plan' and purchases by a family of four consisting of one adult male (19-50 years old), one adult female (19-50 years old), one male teenager (14-18 years old), and one child (9-11 years old). For alcohol, the U.S. Centers for Disease Control (CDC) describes moderate drinking levels as one drink per day for women and two for men (https://www.cdc.gov/alcohol/fact-sheets/moderate-drinking.htm). We have conservatively estimated that a family of four purchases one bottle of wine per week and one six-pack of beer, well within these moderate drinking levels. We have estimated the average current cost of six 16 ounce bottles of beer and one litre of wine from the U.S. Bureau of Labor Statistics (https://www.bls.gov/regions/mid-atlantic/data/averageretailfoodandenergyprices_usandnortheast_table.htm).

Ireland: For food, non-alcoholic beverages, and alcohol we have calculated the impact of a twenty per cent tax on current consumption of potentially taxed categories as reported by the Irish Central Statistics Office (http://www.cso.ie/en/releasesandpublications/ep/p-hbs/hbs20152016/hexp/).

Italy: For food and non-alcoholic beverages we have calculated the impact of a twenty per cent tax on current consumption of potentially taxed categories as reported by the Italian National Institute of Statistics (https://www.istat.it/it/files//2017/07/EN_Households-consumption-expenditure-2016_def.pdf). The figures for alcohol are based on the proportion of consumption expended on alcohol as reported at https://www.thespiritsbusiness.com/2017/12/europeans-spend-more-on-alcohol-than-education/.

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