



# Fiscal Fitness

## The move to use taxes to induce healthier behavior has its limits

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**M**ORE than half of the adults in advanced economies are overweight or obese and the numbers are growing (OECD, 2014). This epidemic of obesity causes 2.8 million deaths a year (WHO) and cost \$147 billion in the United States alone in 2008 (Finkelstein and others, 2009). Public authorities in these countries have considered or implemented a range of measures to fight the epidemic (Jamison and others, 2013), none of which have been more controversial than taxes on fat and sugar.

Modern tax systems rely primarily on broad-based taxes such as those on income and consumption to finance government budgets. However, additional taxes are sometimes applied to achieve broader policy objectives, such as reducing externalities—effects on others that arise from production or consumption but are not reflected in prices. Pollution is a good example. These taxes generally take the form of an excise, a tax on a narrow basket of goods or services.

The success of excise taxes on tobacco has spurred efforts to levy such taxes on unhealthy food in the belief that higher prices will lower consumption. But there are important differences between tobacco and unhealthy food—mainly the kind that contains fat and sugar. The tax base for tobacco is easily identifiable because it comes in fewer consumable forms—unlike fat and sugar—and has no close substitutes; its supply chain is short, simple, and concentrated and therefore easier to control to prevent illicit trade. Moreover, tobacco use has clear external effects in the form of secondhand smoke and health care costs and is unhealthy at any level of consumption. These characteristics justify, and make feasible, an excise tax on tobacco, both from economic and health perspectives.

In comparison, fat and sugar do not damage health when consumed in moderation and generate few externalities. Most important, they come in many natural and artificial forms and are delivered through very different and complex supply chains. So defining the tax base of a specific form of sugar or fat is difficult, and taxing one type of food containing sugar or fat can induce substitution with other unhealthy products. As a result, taxes' relative efficiency in cutting consumption of certain foods is less clear-cut than for tobacco. Moreover, because fat and sugar are considered food items, they are frequently exempt from general sales taxes—making their taxation with excises even less compelling.

That is not to say that there is no role for excise taxes on fat and sugar. Under certain conditions, taxes can effectively

raise revenue and curb consumption of empty calories. For example, soft drinks, which are a major source of calories, can be easily defined for tax purposes, and their consumption can be sensitive to price. But because consumption habits, affordability, and substitution patterns vary significantly across countries, country-specific policies are required.

Moreover, excise taxes sometimes require international coordination to achieve their intended goals. A Danish tax on saturated fat content introduced in October 2011 was repealed after 15 months both because of unclear effects on consumption habits and because Danish shoppers crossed the border to shop in Germany. Other countries, such as France, have had more success using excises to reduce soft drink consumption; there is also evidence of significant impact on consumption among certain socioeconomic groups in the United States (Powell and Chaloupka, 2009).

Fat and sugar excise taxes will probably never be as widespread or effective as tobacco taxes, but they could play a limited role in some contexts, provided they are well designed and adapted to a country's consumption patterns and food supply chains. Let's not forget, however, that obesity is mostly the result of eating too much: addressing that problem could involve revisiting broader policies affecting prices and consumption, such as the taxation of food under general sales taxes, regulation, and subsidies. ■

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