

To: Dr. John Yinger
From: Lara Gooding
Re: Seattle's Sugar Tax
Date: 4/29/20

Seattle's tax on sugary beverages is a sin tax meant to curb consumption of sugary drinks and prevent obesity and related diseases. Revenues from the tax are intended to provide improved access to healthy eating for low-income neighborhoods. Opponents view the tax as paternalistic, unfair, and failing to address underlying issues. Supporters view it as treating an underlying cause of high expenses on taxpayers and an example of the government helping its citizens. Discouraging sugar consumption is important, but methods other than taxation would be more successful and equitable.

Sin Taxes – Principles

Sin taxes are usually meant to dissuade the consumption of goods deemed harmful or unhealthy. Consumption for such goods creates negative externalities, putting additional cost on society at large (Mattoon, 2015). In theory, when the goods are taxed, they become more expensive relative to other, less "sinful" options. As a result, consumers are incentivized to purchase fewer sinful goods. Sin taxes act as a corrective tax, reducing consumption towards a socially efficient level (Alcott et al., 2020).

They usually have a small impact on local governments' budgets – the two most common sin taxes, tobacco and alcohol, raised only \$34 billion in 2017 (Dadayan, 2019). However, sometimes sin taxes are designed to increase tax revenue – for instance, legalized marijuana or gambling taxes (Dadayan, 2019). These taxes were not necessarily meant to dissuade people's participation; rather, they created the opportunity for profit through the inevitability of people's consumption.

Seattle's Sugar Tax

In 2018, Seattle's City Council passed a tax on beverages with added sugar. The tax is an additional 1.75 cents per liquid ounce and includes all sugary beverages except fruit juice, baby formula, and medicine (Beekman, 2017). The tax increases the price of sugary beverages for retailers, who in turn pass the price onto consumers (Jones-Smith, 2019). The goal of this tax was twofold. Seattle's government wanted to reduce the consumption of sugary drinks in low-income communities and in communities of color, which are disproportionately affected by the negative health effects of obesity. It also wanted to create more funding for early education programs and programs that increase access to healthy food for low-income populations (Jacobs, 2018).

Studies show a decrease in the amount of sugary beverages sold in Seattle after implementation of the tax. The demand for sugary beverages, especially among low-income groups, is very elastic (Sarlo-Lähteenkorva & Winkler, 2015). Seattle was no exception: after the tax passed, sales of sugary beverages fell by 22%, showing evidence that consumers are responsive to the tax (Powell & Leider, 2020).

Despite the drop of consumption, the tax has brought in unexpectedly large revenues. The sugar tax has generated 49 percent more money than the city anticipated: \$22.4 million versus \$15

million expected (Westneat, 2019). The unexpectedly large revenues are reflective of the city's underestimation of how much revenue the tax would create (Oddo et al., 2019). Additionally, the tax has not created border effects; people are not buying sugary beverages in other cities in efforts to evade the tax (Powell & Leider, 2020).

Policy Considerations – Opponents of the Sugar Tax

While low-income populations tend to be the highest consumers of sugary beverages, this consumption may be a result of not having other healthy options readily available. Low-income communities have four times more access to unhealthy food than healthy food, and many live in food deserts (Rhode, 2015). Additionally, these communities often do not have access to safe recreational activities that help combat the negative effects of obesity (Rhode, 2015). This statistic holds true in Seattle: high-income neighborhoods have, on average, 50% more access to healthy foods than low-income neighborhoods. When collecting data about availability of healthy food, the public health research team at the University of Washington focused on fresh produce, whole grains, lean proteins, and milk (Chan et al., 2019). The team found that neighborhoods with the lowest percentage of people of color have 30% more access to healthy foods than communities with the highest percentage of people of color (Chan et al., 2019). Low-income have limited access to healthy food both in terms of proximity to grocery stores and in terms of grocery store inventory (Chan et al., 2019). With these statistics in mind, the sugar tax appears quite regressive. Not only are low-income populations more impacted by sin taxes than wealthy populations, but also perhaps they are making these “sinful” decisions because they have no other available options.

Opponents also view sugar taxes as patronizing, as such legislation implies that low-income populations are not able to make decisions for what is best for their health (Rhode, 2015). This implication reinforces negative stigmas towards low-income communities. Furthermore, because sugar taxes do not place additional financial burden on wealthier classes, the policy translates as the wealthy choosing what is best for the poor.

Sugar taxes also meet resistance from small businesses. In Seattle, small businesses were concerned that the tax would impact their profits (Beekman, 2017). Small businesses lobbied to protect themselves from proliferation of the tax; though Seattle's sugar tax remains in place, the rest of Washington has banned the implementation of sugary beverage taxes (Oddo et al., 2019).

Policy Considerations – Support for the Sugar Tax

The sugar tax is meant to counter the negative externalities created by obesity. Populations who consume more sugary beverages are also more likely to be obese, and in turn are far more likely to suffer from obesity-related conditions such as heart disease and Type II diabetes (Allcott et al., 2020). Treating these conditions puts substantial strain on the American healthcare system: Medicaid and Medicare pay for half obesity-related health problems (Rhode, 2015). The consumption of sugary beverages are thus putting additional burden on taxpayers and publicly funded healthcare. The tax increases the price and decreases the demand for soda. This lessens the burden on the healthcare system because there are fewer incidences of obesity and related diseases.

Many sin taxes are also viewed by advocates as a way for governments to correct for consumers' irrational decision-making. For instance, people's continued consumption of tobacco

suggest that people do not link their current situation with the future health consequences of smoking (Cummingst, 2010). The government has a role to care for its citizens, which includes encouraging people to make better choices. Taxing sugary drinks steers people away from sugary beverages and towards a healthier future.

Advocates of the policy also view the tax as correcting existing inequities by increasing access to healthy food in low-income areas (Oddo et al., 2019). The revenues of Seattle's sugar tax create a source of funding for programs including vouchers for low-income people to buy healthy food and community-based programs for physical activity, thus countering the imbalances experienced by low-income communities. Furthermore, although some low-income consumers may incur a higher cost from sugary beverages, these costs will be offset by the benefits gained by not consuming as many of them. Because consumption of sugary drinks is concentrated among low-income people, the benefits of reduced consumption will be concentrated within the same group (Allcott et al., 2020).

Recommendations

Many arguments supporting the sugar tax do not make logical sense. Creating vouchers for low-income communities to purchase healthy food and programs encouraging healthier lifestyles do not decrease the physical distance people must travel to reach grocery stores with healthy food options. Though linking such programs to a sugar tax makes them more politically feasible, they should be funded regardless of a sugar tax – especially considering the potential beneficial effects they have in countering future burdens on the healthcare system.

Seattle's sugar tax is based on the volume of the sugary beverage rather than its actual sugar content, meaning that people pay the same tax regardless of beverage type. If the sugar tax were to remain in place, Seattle should tax sugary beverages based on the amount of sugar in the drink rather than the volume of the drink itself. This would incentivize people towards healthier options and incentivize producers to create less sugary recipes. This version of a sin tax is not unprecedented; for example, alcohol taxes vary based on the type of beverage (Dadayan, 2019). This reform might create more systemic change because it would impact both producers and consumers.

Addressing obesity is an achievable goal, and Seattle has other tools at its disposal besides sugar taxes. I recommend that Seattle considers providing tax credits for grocery stores to remain in low-income neighborhoods. This will combat the problem of access to grocery stores as well as the availability of healthy options for purchase.

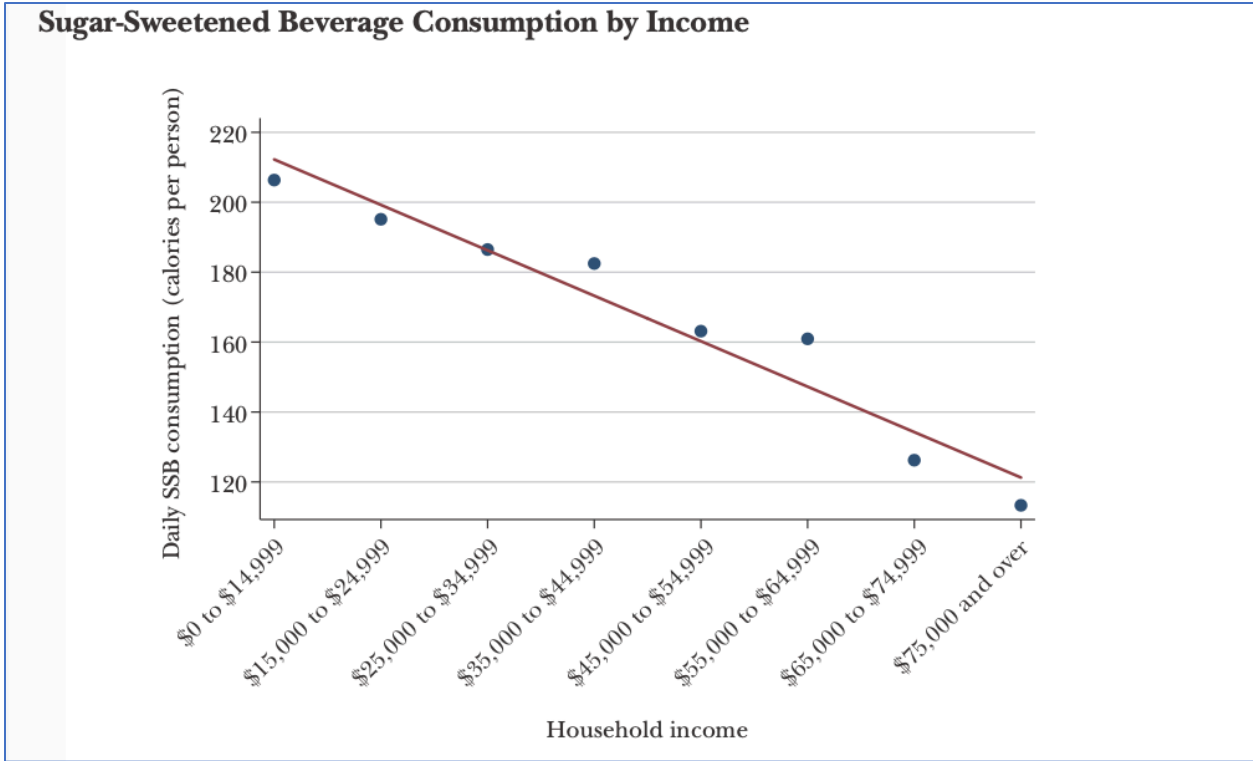


Figure 1: Sugar-Sweetened Beverage Consumption by Income. Source: (Allcott et al., 2020)

References

Allcott, H., Lockwood, B. B., & Taubinsky, D. (2020). Should We Tax Sugar-Sweetened Beverages? An Overview of Theory and Evidence. *Journal of Economic Perspectives*, 27.

This article outlines the economic arguments for or opposing a sugar tax. This article seems credible - is published in a peer reviewed journal. All the authors are either professors or research fellows in economics and public policy.

Beekman, D. (2017, June 5). Seattle will tax sugary soda—But not diet. *The Seattle Times*. <https://www.seattletimes.com/seattle-news/politics/seattle-city-council-says-yes-to-soda-tax/>

This is a news article explaining how the tax works and provides a broad overview of the policy. It is a credible source for the history of the tax, as this was a local issue the Seattle Times was heavily covering at the time.

Chan, N., Jones-Smith, J., & Bolt, K. (2019, February 27). *Report on healthy food availability and assessment of Seattle's Food Bank Network*.

This is a presentation of healthy food availability in Seattle, conducted by the public health research team at UW responsible for studying the sugar tax. This is a trustworthy source – these researchers have been working on this project for several years. Additionally, this was presented to the Seattle City Council, so the presented information needed to be accurate because it was under a higher level of scrutiny.

Cummingst, J. (2010). *Obesity and Unhealthy Consumption: The Public-Policy Case for Placing a Federal Sin Tax on Sugary Beverages*. 34, 27.

This article details the link between obesity and sugar taxes, and how sugar taxes will help counter the externalities of obesity. It is a credible source – it is published in Seattle U Law journal which is subject to rigorous editing. The author also extensively cites sources and refers to other experts.

Dadayan, L. (2019). States' Addiction to Sins: Sin Tax Fallacy. *National Tax Journal*, 70(4), 723–754. <https://doi.org/10.17310/ntj.2019.4.04>

This article briefly summarizes the history of sin taxes, describes their different types and provides examples, and explains why a government might want to implement them. This is a peer-reviewed article published in a reputable journal for tax policy. Additionally, the sources used by the author are also from peer-reviewed journals and reputable think tanks.

Jacobs, A. (2018, November 2). Where 'Yes! To Affordable Groceries' Really Means No to a Soda Tax. *The New York Times*. <https://www.nytimes.com/2018/11/02/health/grocery-taxes-oregon-washington-soda-tax.html>

This is a New York Times article about the sugar tax and lobbyist opposition. The reporter doesn't cite studies and relies on interviews and anecdotes. However, the quotes he does use are

from government officials in Seattle. This article is reliable for understanding public perception of the sugar tax.

Jones-Smith, J. (2019, January). *Seattle Sweetened Beverage Tax Evaluation: Impact on Prices 6-month results*.

<https://www.seattle.gov/Documents/Departments/CityAuditor/auditreports/Council%20Presentation%20Slides.pdf>

The presentation explores the impact on soda pricing after implementing the sugar tax. This source is trustworthy because of both its authors and its intended audience – the information needed was being presented to the City Council, so it was under a higher level of scrutiny. Additionally, the presenter was a member of the public health research team from UW conducting research on the sugar tax.

Mattoon, R., & Wetmore, S. (2015). Sin taxes: The sobering fiscal reality. *Chicago Fed Letter*, 4.

This article summarizes the merits/negatives of sin taxes and some examples of them. It also briefly explains state trends in sin taxes. This article is credible; it is written by senior economists from the Chicago Fed and the Civic Federation who have expertise in fiscal policy. It is also published in a reputable source.

Oddo, V., Krieger, J., Knox, M., Saelens, B., Chan, N., Pinero Walkinshaw, L., Podrabsky, M., & Jones-Smith, J. (2019a). Perceptions of the possible health and economic impacts of Seattle's sugary beverage tax. *BMC Public Health*, 19(910).

This study explores public opinion of the sugar tax. The study was funded by the city of Seattle with additional support by the Kaiser Foundation. The study states that they did not influence the outcome of the study, but it bears mentioning, as the results were so agreeable to these organizations' interests. Beyond this issue, however, this source seems reputable. The authors have made their datasets publicly available, as well as supplemental tables. The researchers are professors and researchers in public health and economics and are experienced in their fields.

Oddo, V., Krieger, J., Knox, M., Saelens, B., Chan, N., Pinero Walkinshaw, L., Podrabsky, M., & Jones-Smith, J. (2019b). *The Evaluation of Seattle's Sweetened Beverage Tax: Frequently Asked Questions (FAQs)*.

<https://www.seattle.gov/Documents/Departments/CityAuditor/auditreports/FAQs%206%20Month%20Store%20Audit.pdf>

This is an FAQ used at a Seattle City Council meeting by public health researchers at the University of Washington. The document addresses commonly asked questions about the sugar tax and its effects. This source is trustworthy because of both its authors and its intended audience – the information needed to be correct for the council, and its authors are experienced and knowledgeable researchers.

Powell, L. M., & Leider, J. (2020). The impact of Seattle's Sweetened Beverage Tax on beverage prices and volume sold. *Economics & Human Biology*, 37, 100856.

<https://doi.org/10.1016/j.ehb.2020.100856>

This study is specific to the sugar tax in Seattle. The authors study if the tax on sugary beverages had an impact on consumption. The source seems credible; they cite their sources and figures from reputable journals and thinktanks. Additionally, both authors are professors at the University of Chicago and research health policy.

Rhode, D. L. (2015). Obesity and Public Policy: A Roadmap for Reform. *Virginia Journal of Social Policy & the Law*, 22, 35.

This article examines public policy strategies to respond to the obesity epidemic in America. Rhode is a law professor, and this article was published in a reputable journal. She also cites facts/figures using other reputable sources.

Sarlio-Lähteenkorva, S., & Winkler, J. T. (2015). Could a sugar tax help combat obesity? *British Medical Journal*, h4047. <https://doi.org/10.1136/bmj.h4047>

This article is a “head to head,” where authors with different views argue opposing viewpoints: one in favor of sugar taxes and one against. This article is credible. It is peer-reviewed. Sarlio-Lähteenkorva is a professor and ministerial advisor to the Finland Ministry of Social Affairs and Health; Winkler is a professor of nutrition policy and the London Metropolitan University.

Westneat, D. (2019, July 24). Drink less soda? The sugar tax is Seattle’s fastest-growing revenue source for 2019. *The Seattle Times*. <https://www.seattletimes.com/seattle-news/politics/drink-less-soda-the-sugar-tax-is-seattles-fastest-growing-revenue-source-for-2019/>

This is a news article about the sugar tax after its implementation in Seattle. It uses data from the city, but the report does not cite from studies and uses anecdotal evidence. This article is useful for understanding perceptions of the tax, but not accurate regarding the economic impacts.

Zheng, Y., McLaughlin, E. W., & Kaiser, H. M. (2013). Taxing Food and Beverages: Theory, Evidence, and Policy. *American Journal of Agricultural Economics*, 95(3), 705–723. <https://doi.org/10.1093/ajae/aas138>

This article is about the salience of food taxes. This article is credible. Supplementary material is available and sources are from reputable journals. Additionally, the authors are professors of economics.