



David Cameron's unpalatable nannyng

-Basham and Luik

A proposed 'fat tax' is not only illiberal but also daft - there's ample evidence such taxes don't improve health.

During the Conservative party conference, UK prime minister David Cameron told *5 News* that his government will consider a 'fat tax', as he believes drastic action is needed to fight obesity. Such a tax was introduced recently by Denmark through a surcharge placed on high-fat foods such as butter, milk, cheese, meat and processed food. Last week, the French government announced that it will impose a fat tax on sugary soft drinks.

Cameron is heading down a well-trodden policy path. In 2003, the British Medical Association proposed levying a 17.5 per cent fat tax on high-fat foods such as biscuits, cakes and processed meals. A year later, then prime minister Tony Blair's Downing Street Strategy Unit floated a comparable idea in a paper, *Personal Responsibility and Changing Behaviour*, which recommended a fat tax as an obesity-fighting 'signal to society'. Then in 2005, Britain's environmental health officers added their collective voice to the call for VAT-style taxes on 'unhealthy' pre-prepared products.

The obesity crusaders' argument is that a fat tax will reduce junk-food consumption, and thereby improve diets and overall public health. There are many reasons, however, to suspect that a fat tax would be at best unsuccessful, and at worst economically and socially harmful.

For example, scientifically rigorous evidence suggests that higher prices do not reduce soft-drink consumption. There are no studies demonstrating a difference either in aggregate soft-drink consumption or in child and adolescent body mass index (BMI) between jurisdictions with soft-drink taxes and those without such taxes.

Intrigued by the fact that almost two thirds of all American states tax soft drinks, Yale public-health professor Jason Fletcher, in the *Journal of Public Economics*, examined the potential for such taxes to reduce adolescent obesity. Using state soft-drink-sales tax data from 1988-2006, along with the National Health Examination and Nutrition Survey, he found that while such taxes might lead to a moderate reduction in soft-drink consumption, this had no effect on adolescent obesity since the reduction was 'completely offset by increases in consumption of other high-calorie drinks'. Furthermore, in a recent edition of

Health Affairs, Roland Sturm found that soft-drink taxes ‘do not substantially affect overall levels of soda consumption or obesity rates’.

Cameron will be disappointed to learn that fat taxes in general are similarly unsuccessful. In an analysis of the effects of Maine’s fat tax, Brio Oaks found no statistically significant association between the fat tax and the prevalence of obesity. Indeed, he notes: ‘Despite the snack tax being enacted in 1991, Maine’s obesity rates increased by 7.3 per cent before the act was repealed in 2001.’

These results are confirmed in a study by Christiane Schroeter in the *Journal of Health Economics* which examined the link between food prices and obesity. The study concluded that while increasing the price of high-calorie food might lead to decreased demand for these foods, ‘it is not clear that such an outcome will actually reduce weight’.

Why do fat taxes fail? The economic answer is that demand for food tends to be largely insensitive to price. Considerable research on food prices has demonstrated this inelasticity. A 10 per cent increase in price, for instance, reduces consumption by less than one per cent.

This highlights the unresolved tension inherent in justifications for increasing food taxes: on the one hand, such measures supposedly raise substantial revenue for worthy ends, while on the other they reduce the consumption of a targeted good. Yet, to the extent that they do reduce consumption of a particular food, they can only do so to the detriment of tax revenue.

So, following previous research, to reduce the consumption of soft drinks in the UK by 10 per cent, the tax rate would need to be 100 per cent. And to reduce UK soft-drink consumption by 50 per cent, for instance, soft drinks would need to cost more than £2.60 per can.

Alternately, if a tax were to somehow reduce demand for soft drinks, such a reduction could also lead to manufacturers reducing prices, which in turn would lessen any impact on consumption. Given the increased role of the state in the economy, this might lead to demands for the government to fix the price of soft drinks.

The latest economic research strongly suggests that a fat tax may simply prove to be a futile instrument in influencing the behaviour and habits of the overweight and the obese. Those consumers ‘addicted’ (to use the obesity crusaders’ term) to unhealthy food will not be dissuaded from their eating habits and patterns by a tax. Those consumers who strongly prefer ‘unhealthy’ foods – those we term dietary ‘risk takers’ – continue to eat and drink according to their individual preferences until such time as it becomes prohibitively expensive to do so.

If one accepts the assumption that a fat tax would significantly alter consumer behaviour, the societal and economic consequences would be undesirable. For example, the US Department of Agriculture Economic Research Service has determined that a fat tax

would be economically regressive, as a disproportionate share of the tax would be paid by low earners, who pay a higher proportion of their incomes in sales tax and also consume a disproportionate share of junk food.

Furthermore, fat taxes have perverse, unintended consequences. According to the US government's Economic Research Service, another unintended consequence of a fat tax on consumer behaviour is that taxes on snack foods could lead some consumers to replace the taxed food with equally unhealthy foods. Adam Drewnowski similarly found that poorer consumers react to higher food prices not by changing their diets, but by consuming even fewer 'healthy' foods, such as fruits and vegetables, and eating more processed foods.

A Danish study confirmed this problematic outcome, finding that sin taxes on junk foods would fail to reduce consumption by the population (that is, the poor) who consume these foods most frequently. Additionally, it found that taxes levied on sugar content – the basis for the soft-drinks tax – would increase saturated fat consumption.

Finally, there is an unpalatable odour of social engineering, or to use the preferred public-health euphemism, 'denormalisation', about the idea of a fat tax. Given that there is no compelling evidence that taxing fatty foods will change diet or affect overweight and obesity, one can wonder whether the fat-tax campaign is really meant to stigmatise a certain type of personal behaviour.

Fat taxes are conceptually flawed, have failed where they have been tried, and are insensitive to fundamental considerations of fairness and liberty. Consequently, a democratic government with a serious commitment to individual autonomy and personal responsibility cannot justify using the tax code to shape its citizens' food choices.

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