

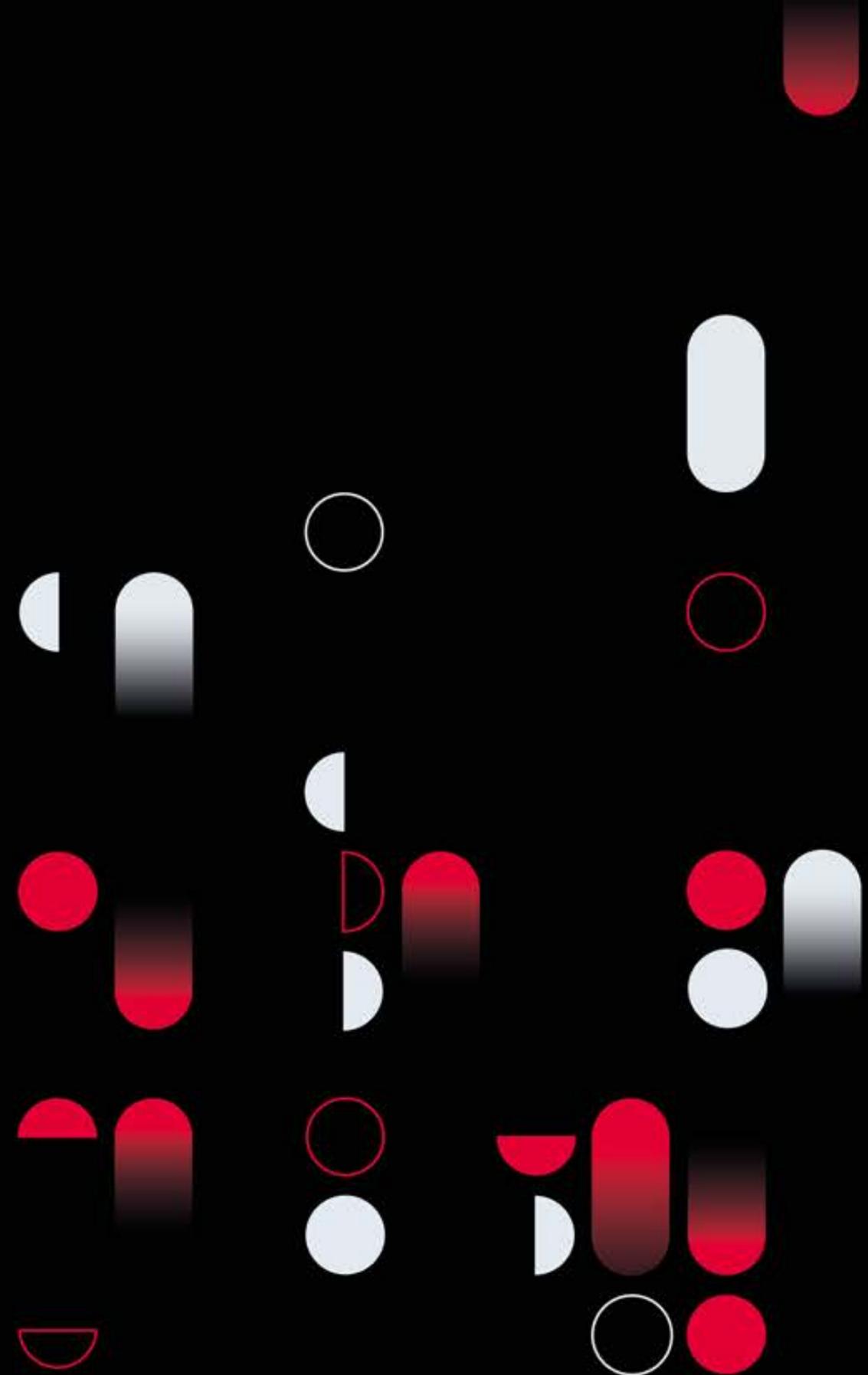
New approaches to food taxation: design and evaluation challenges

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Health Taxes

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

Adam Smith (1776), An Inquiry into the Nature and Causes of the Wealth of Nations.

Health Taxes

- Frank Ramsey (1903-1930):

Efficient commodity taxation requires a focus on goods whose demand is not sensitive to price changes

- Arthur Pigou (1877-1959):

A key rationale for commodity taxation is in the negative externalities, or socially undesirable consequences not reflected in the market price, associated with the production or consumption of certain goods

Health Taxes

Products that today we know are associated with poor health outcomes happen to have all the required characteristics:

- i. they are not necessities;
- ii. their demand is insensitive to price;
- iii. they generate negative externalities.

But, what provides a health rationale for these taxes is their potential as incentives for healthier consumption

Health Taxes

Mirrlees Review (2011):

“There are convincing arguments for [...] differentiated tax rates where the consumption of a particular good or service creates spill-over costs or benefits”

“taxes can encourage people to avoid acting against their own self-interest”

But, practical difficulties in addressing externalities through consumption taxes, chiefly the heterogeneity of consumers, which suggests that effective tax rates should differ across individuals

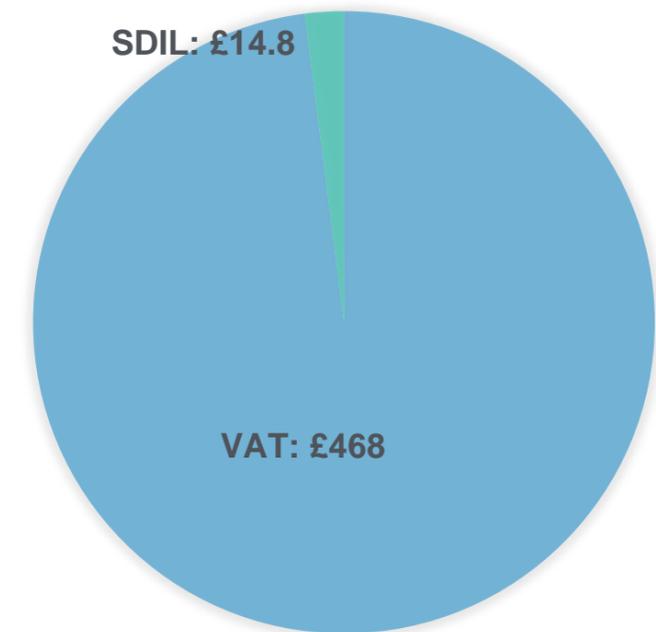
Food Taxes

Existing health taxes on food are small and have limited impact on people's diets

Mostly designed to target a single nutrient, simple (unsophisticated) design

The incentives from other consumption taxes on FNABs (let alone incentives from other policies) can vastly outweigh those from health taxes

Average consumption taxes on FNABs paid by a UK household in a year



Source: CHEPI analysis of LCF 2018/19 and NDNS 2016/17

Food Taxes – General Consumption Taxes

- I. Ad valorem taxes, not ideal where nutritional quality is correlated with price

This would be less of an issue if taxation were a function of nutritional quality

- II. Rate differentiation is common in the food sector, but mostly a function of distributional and industrial concerns

Can we increase the weight of spill-overs in rate differentiation?

- III. Lack of salience in general consumption taxes, especially sales taxes

Can we make taxes, and their rationale, more salient?

A new Vision for Consumption Taxes on FNABs

- A single, ad valorem, tax applied to all FNABs
- Tax rate differentiation strongly anchored to spill-overs (e.g. if health were the primary concern, spill-overs would be driven by nutritional quality and nutrient profiling would be a suitable basis for taxation)
- Effective tax rates would vary between individuals
- A salient tax, strengthened by complementary behavioural incentives (e.g. food labels, defaults, commitment devices)

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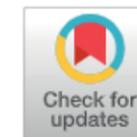
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Fat tax or thin subsidy? How price increases and decreases affect the energy and nutrient content of food and beverage purchases in Great Britain



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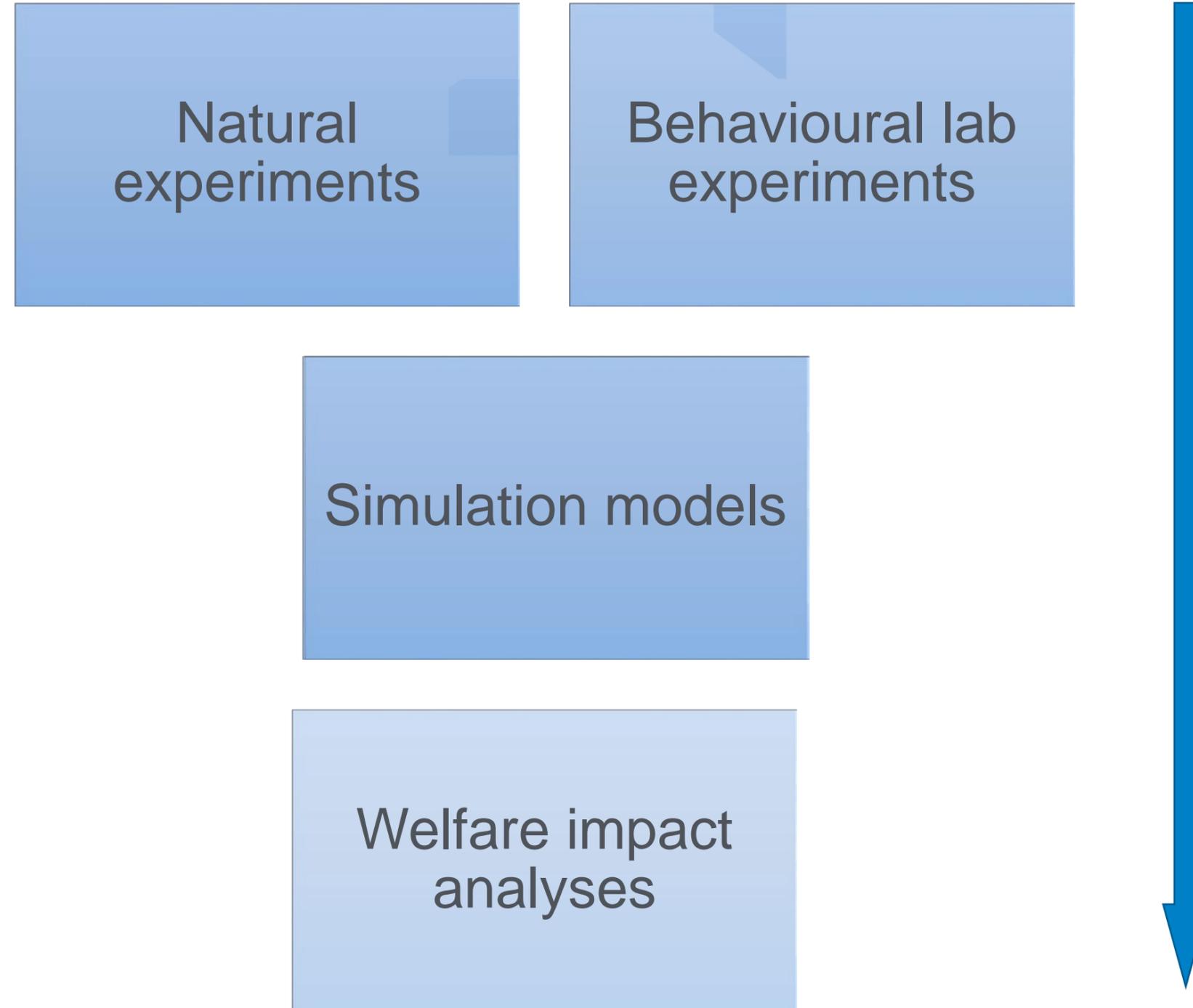
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What Does This Mean for the Evaluation of Food Taxes?

The Evaluation Pathway



Why Natural Experiments are Necessary

1. They provide the most robust way of answering the question “Does it work?”
2. They can test behavioural responses to the tax in different population groups
3. They provide evidence of tax pass-through



Why Behavioural Lab Experiments are Necessary

1. Price elasticities cannot be reliably estimated ex-ante from observational data for tax policies not previously implemented
2. Lab experiments allow the testing of multiple tax design options
3. They may allow the testing of combinations of price and non-price (e.g. labels, defaults) incentives

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Why Models are Necessary

1. Long time frame of public health policy outcomes
2. Virtually impossible to separate policy effects from confounding effects based on direct observation
3. Heterogeneity of individual characteristics and policy responses matters
4. Variety of outcomes to satisfy a wide range of information needs

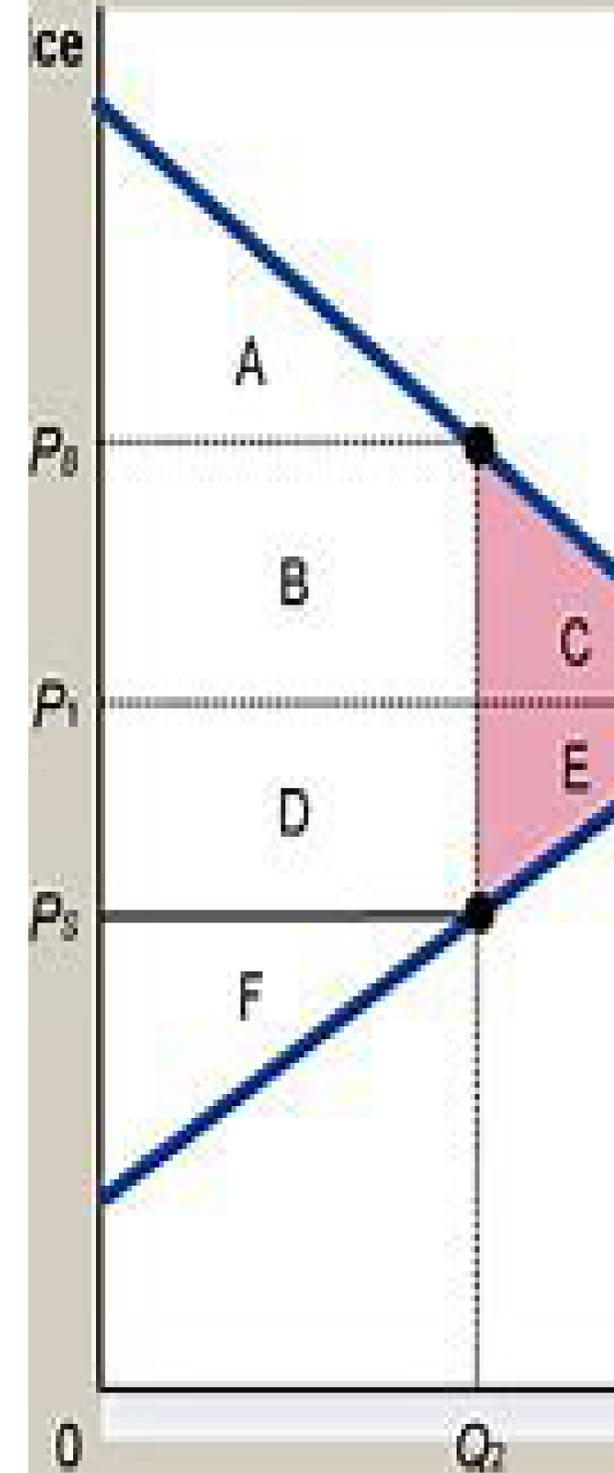
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Why Welfare Impact Studies are Necessary

1. Consumption taxes are fiscal policies, they are part of a wider fiscal system and need to respond to fiscal policy objectives
2. If the key rationale for health (or environmental) taxes is addressing spill-overs, evidence is required that the latter are addressed effectively
3. Welfare impacts are not merely in terms of efficiency, but also welfare distribution

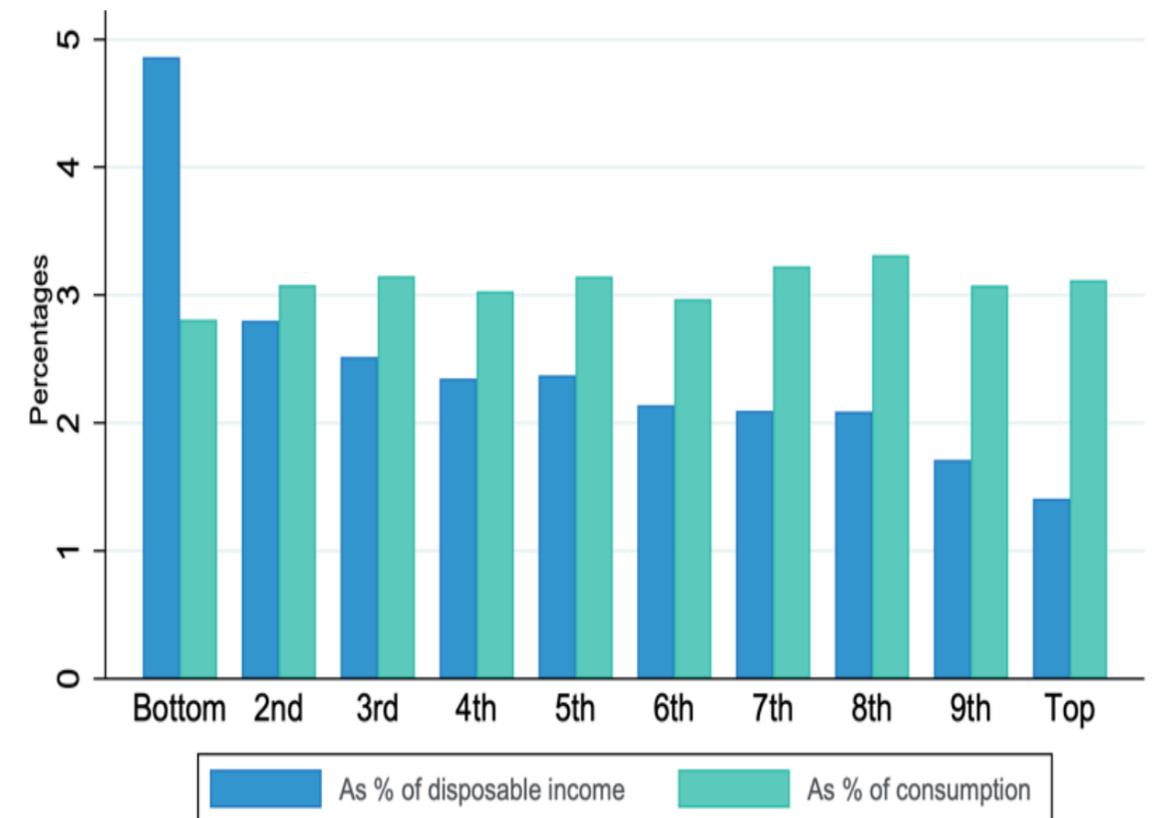
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Distributional Equity is a Dynamic Construct

- Distributional impacts should ideally be assessed at a higher level in the fiscal system, not for individual taxes
- Equity is a dynamic construct, it varies with political values
- In the case of consumption taxes, it also varies over time with consumption habits

*Incidence of VAT on FNABs by household income decile in the UK
(Imperial College analysis of Living Costs and Food survey data)*



Some Conclusions

- Consumption patterns are contributing to major societal issues, including chronic diseases and environmental degradation
- Consumption taxes generate an important share of fiscal revenues in countries at all levels of income
- They serve a number of purposes, but they also provide incentives that are not aligned with the goal of addressing societal issues
- Through a multi-step evaluation process, the value of repurposing consumption taxes can be demonstrated