



SUGAR TAX

CONSUMER-FRIENDLY WAYS
TO TACKLE OBESITY IN THE UK

POLICY NOTE

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Introduction

It was recently reported that Prime Minister Boris Johnson is keen to lead a new strategy to help tackle obesity and move the needle towards a more paternalistic approach. Almost half of Brits (47 per cent) have put on weight since lockdown began in March, according to the 1:1 Diet by Cambridge Weight Plan.

Taking the path of more lifestyle interventionism in the form of taxes and various other regulations seems straightforward and is usually pursued out of noble motives. However, no policy tool is perfect, and it is important to keep in mind the costs and benefits of each while remaining open to innovative solutions.

According to the NHS statistics on obesity, physical activity and diet, 63% of adults in England in 2018 were overweight or obese.

In 2018/19, 11,117 hospital admissions were directly attributable to obesity while 876,000 hospital admissions obesity was a factor. The situation has been disastrous, and the government has understandably set off alarm bells.

In April 2018, as part of the government's childhood obesity strategy, the UK government introduced a sugar tax to reduce sugar consumption. A year later, it was announced that plain packaging of crisps, sweets and fizzy drinks was also on the agenda. In light of the coronavirus pandemic and excessive weight having been recognised as a risk factor, the discussion around obesity and ways to tackle it has spurred again.

This policy note examines the propensity of sugar taxes to address obesity, looks at the reasoning behind them and at relevant case studies to analyse their effectiveness and delves into consumer behaviour in response to these. Additionally, the policy note also spells out some of the alternative solutions to the obesity crisis.



SUGAR TAX: PROS AND CONS

The idea of sugar tax dates back to the 1930s when Denmark began taxing soft drinks and juices. The logic was clear: to drive down demand for sugar, it is necessary to increase its price. A higher price is supposed to incentivise companies to look for cheap sugar substitutes while consumers would think twice before buying sugary products out of budget considerations. The collected taxes could then be used to increase public health funding of diabetes or other sugar-consumption induced diseases. At first glance, the idea makes a lot of sense, but it comes with many issues that are usually unseen (Bastiat, 1850).

First, the sugar tax disproportionately affects low-income households. The cost of living in the UK is already high, and sugar taxes contribute to the pressure instead of easing it. Low-income people tend to consume more sugary drinks than those on high-incomes, according to a [2018 study](#) by US Tax Foundation. In Mexico, 62% of the revenue collected from sugar tax has mainly come from low-income households.

Second, the substitution effect holds that consumers opt for cheaper alternatives to similar high-priced products. That said, if sugary drinks spike in price, consumers tend to switch to other products that have less sugar but are in fact not healthier, such as alcohol. [A study](#) in the Journal of Epidemiology and Community Health conducted from January to December 2013 concluded that a higher price of diet/low-sugar drinks was connected to greater beer, cider, and wine sales.

However, it might also be the case that a tax fails to alter consumer behaviour at all. [One study](#) found that 62% of UK shoppers claim to have not changed their consumption behaviour in any way post-sugar tax.

Third, sugar taxes reduce the issue of obesity only to sugar consumption while obesity is also a matter of physical inactivity (Pietilainen, Kirsi H. Kaprio, Jaakko Borg, Patrik Plasqui, Guy et al., 2008). Levels of physical activity have dropped by a quarter since 1961, according to Public Health England. Walking activity among Britons fell from 255 miles per year in 1976 to 179 miles in 2010.

Fourth, the key goal of the sugar tax is to create a situation when the personal cost of consuming sugar products is higher than the perceived personal benefit. The decision is then inefficient, and if consumers are assumed to be rational, they would avoid it. However, even without a tangible increase in the price of sugar, the cost of sugar consumption is high as it comes with an externality: the situation in which an individual decision leads to negative implications in the future such as diabetes (Mardian, 2014).

And yet somehow consumers still choose to consume sugar. Conversely, the price of sugar consumption per se isn't the main factor in the consumer decision-making process.

Based on this, here are some scenarios to consider:



Consumers are unaware of the negative consequences of sugar consumption. In that case, obesity is a failure of the education system.



Consumers don't pay sufficient attention to the information about products. Attention is an asset, and therefore consumers cannot possibly focus on every detail about every product they buy (Mardian, 2014). If that is so in the case of sugar, then some nudging (explained further) might be the way forward.



Consumers are completely aware of health problems associated with sugar consumption but still buy it irrespective of the cost. It is tempting to nanny consumers into eating healthy food, but instead, we should focus on making sure their consumption decisions are based on personal responsibility.



NUDGING, INNOVATION, AND EDUCATION

For reasons explained before, the UK government has been using various types of interventions to solve the rising national rates of obesity, and more of those are seemingly on the way. However, a substantial societal change can only be achieved through a partnership between government and other actors such as business, civil society organisations and advocacy groups, and education systems (Hayek, 1965).

In order to make it easier for people to choose what is best for them, their families and society, we have to understand how people think (Thaler, 2008). Our actions are affected by minor details of the “choice architecture”, and in some situations, “some organisations or agent must make a choice that will affect the choices of some other people” (Thaler, Sunstein, 2015), and sometimes they do it without realising the power at their disposal. For instance, a shopkeeper who chooses how to arrange products on shelves does impact the way consumers think. Putting healthier foods to the front and sugary ones to the back doesn’t result in less consumer choice, and doesn’t place an additional cost burden on consumers, but it does make it more likely that consumers would buy fruit instead of a chocolate bar. It is a win-win situation for government, businesses, consumers, and society overall. The Nudge Unit created under David Cameron was a good initiative and it should be given a new life as we look to tackle obesity.

Challenging times require innovative solutions. In order to drive down obesity, we have to review our incentives. Longevity and a healthy lifestyle is an excellent motivation in itself but monetary incentives might turn out to be more successful. Obesity is a societal issue, and so fighting it requires a multi-sided approach. Nowadays companies go out of their way to improve the wellbeing of their employees, by providing gyms, yoga classes, company-wide fitness programs, etc. Many American firms are now incentivising their employees to become healthier in order to reduce overall insurance costs for

those in pooled insurance programs. In the UK, if companies were able to get tax relief when the number of obese employees goes down over a certain period of time thanks to the company's encouragement and facilities, it is likely they would take up on the opportunity. The results could be astounding provided that transparency is guaranteed.

In a similar fashion, the government could cooperate with the IT sector to create an app where citizens could track their lifestyle, get rewards for eating healthy food and exercising more in the form of income tax reduction upon reaching specific milestones. One example of such an idea is the Sweatcoin app which converts steps into a currency that can be spent on various goods and services. The UK could succeed in solving one of the world's most pressing issues if it decides to embrace innovation.

Lastly, we should also focus on educating students about sugar consumption, and generally about health to ensure they are able to make informed and responsible consumer decisions. Daily calorie intake in the UK is also decreasing each decade. It is exercise that many people are lacking, and we should educate consumers about this fact. In particular, education should draw the attention of consumers to sugar so that consumers don't make these consumption choices by inertia but take time to balance out the present and future costs and benefits.

CONCLUSION

It is without a doubt that obesity is a pressing issue in the UK, and it is also clear that something has to be done about it. Nannying consumers through taxation hasn't proved to be effective so far. Interventionism is expensive, short-sighted and ignores the complexity of the consumer decision-making process. Nudging, education, and innovation are a smarter way forward, and one we would recommend.



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