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Need to Know: Sin Taxes

Introduction

Sin taxes have existed as a form of corrective social policy since the mid-20th century, but have just recently been applied to sugary drinks. Britain has introduced legislation that will set levies on unhealthy sugary drinks in the next two years, and the Canadian Federal Government has considered adopting similar programs in the past.

The Theory behind Sin Taxes

John Nash pioneered the economic idea of steady-state equilibrium, which occurs where each of us makes the best decision in the context of everyone else's best decision. This theory is a refinement of Adam Smith's "invisible hand", wherein markets naturally organize in activity that leaves everyone better off. These theories are not without flaw, and Arthur Pigou noted that societal impacts of individual activities (externalities) do not always produce the highest well-being for society.

Sin taxes are a method of relieving the tension between individual interests and collective well-being by correcting negative externalities. Pigou regarded negative externalities as uncharged costs to social welfare and symptoms of market inefficiency. Pigou developed bounties and taxes (sin taxes or 'Pigouvian taxes') as an intervention to restore the collective interest in market organization. In the context of sugar-sweetened drinks, the externalities addressed by sin taxes are increased health care costs due to diabetes and obesity. Sin taxes on sugar-sweetened drinks would internalize the increased social health care costs and potentially deter individuals from drinking sugary beverages.

The Theory Applied

Ireland and the UK have developed a 'sugar tax' to be levied on manufacturers of sugar-sweetened beverages. Pure fruit juices, milk-based drinks, and small producers are exempt from the tax, which applies at the point of production or importation. The tax is applied to drinks with sugar content above 5g per 100ml at roughly 30 cents per litre, and to drinks with sugar content above 8g per 100ml at roughly 40 cents per litre. Numerous U.S. cities have enacted similar schemes, like the tax in Berkeley, California that amounts to $0.68 (US) on a two litre bottle of soda that cost roughly $2 (US) prior to the tax.

Should Theory Become Practice in Canada?

Proponents of taxes on sugary drinks point to the success of other sin taxes, including those applied to alcohol and cigarettes. The World Health Organization supports the tax, and the North West Territories intends to consider the tax as a price incentive to discourage consumption of sugary drinks. Revenues from the tax can subsidize healthier foods and offset health care costs. Additionally, the Heart & Stroke Foundation released a study claiming a national tax of 20% on all sugary drinks would save 13,000 lives, avoid 200,000 cases of diabetes and 60,000 cases of heart disease, and raise $1.7 billion in federal revenue yearly.

Critics argue that cola demand has already fallen by 22% in Canada since 2004, and that the narrow focus on sugary drinks is arbitrary. Denmark recently abolished its 'sugar tax' due to claimed ineffectiveness. The tax could also cause people to switch to untaxed but equally unhealthy options. Exactly how much tax can be absorbed by the manufacturer without being passed on to the consumer is unclear as well. The regressive nature of the tax causes greater effects on those with lower incomes because of its uniform application. Administrative difficulties and costs could prove burdensome, and some believe the tax is simply another form of unnecessary government intervention.

Should sin taxes be implemented in Canada? Click on the following link to share your thoughts.

LINK: https://www.surveymonkey.com/r/5FBZZ83.