

## JUNK FOOD TAX A MOVE IN THE RIGHT DIRECTION

Minister Hogg announced on October 5 that the province is actively considering a tax on junk food. This idea has considerable merit. While new taxes rarely receive a warm welcome from the public, a tax on junk food would likely be in the interests of almost all British Columbians.

The primary purpose of a tax on junk food is not to raise more government revenue – though it will of course raise revenue – but to change dietary incentives. In particular, the tax is meant to shift dietary choices towards healthier foods. Some people might argue that dietary choices are a personal matter and that the government has no business interfering in those choices; it is not the role of government to play protective parent to the citizenry. However, dietary choices are not a purely personal matter. Dietary choices affect health outcomes, and the taxpayer-financed nature of our health care system therefore makes personal dietary choices a matter of public concern.

When someone makes poor dietary choices – or poor dietary choices on behalf of their children – they impose a cost on every taxpayer because taxpayers are responsible for funding the health care costs arising from those dietary choices. A tax on poor quality food – food high in fat and refined sugar – is one mechanism by which those health care costs can be reflected back on the person making the dietary choice, thereby creating an incentive to make better choices. In this respect, a tax on junk food should be viewed as a preventative health care measure.

An important issue with respect to any new tax is the question of how the tax will impact different income groups. There is good evidence to suggest that lower income households tend to consume poorer quality food on average than higher income households. Some of this difference may be explained by differences in education levels, which are highly correlated with income. However, an equally important factor appears to be that lower income households consume lower quality diets because poor quality food is – on average – cheaper than higher quality food on a per calorie basis. Foods high in fat and refined sugar are calorie-dense, and tend to provide more calories per dollar than high quality foods like fruits and vegetables. Does this mean that a tax on junk food will likely affect lower income households more than higher income ones? Almost surely. However, this does not mean that lower income households will necessarily be made worse-off overall. The overall impact of a policy to tax junk food will depend on how government uses the revenue raised by the tax, and more importantly, how it allocates resources saved in terms of health care expenditures avoided as a consequence of better dietary choices.

In a study completed earlier this year, my colleague Melanie Toner and I examined the impact of a tax on the fat content of food. We examined the effect of the tax on dietary choices across different income groups and the implications for health care expenditures, worker productivity losses from diet-related illness, and tax revenue. We focussed exclusively on the costs associated with type 2 diabetes because it is an important diet-related illness and because we could obtain reliable data on that disease. We found that the optimal tax on fat – which translates into a tax on food types ranging from zero (on

foods like broccoli) to about thirty-nine percent for very high-fat foods – would likely save around \$2.1b in health care costs and \$1.3b in productivity losses avoided, on a Canada-wide annual basis. We caution against placing too much faith in these numbers but our estimates provide ballpark figures for the potential savings from creating better dietary choices. Moreover, these values are only for type 2 diabetes, which is just one of many diet-related diseases whose incidence would be reduced by a tax on poor quality food.

Our study also examined the impact of a dietary fat tax across income groups. We assumed that savings on health care expenditures and government revenue associated with the tax would be used to finance government services that benefit all Canadians more-or-less equally. Under that scenario, we found that high income households benefit most from the tax on fat but that all households – with the exception of the poorest two percent – are net beneficiaries. The net loss to the very poorest households is a serious concern and measures would need to be taken to mitigate that effect. However, such measures could be financed easily out of the tax revenue raised.

Overall, the results from our study provide strong support for a tax on poor quality foods. There are of course some administrative costs associated with the implementation of such a tax but the benefits of the tax will almost surely outweigh those costs by many orders of magnitude. On balance, the province is moving in the right direction in contemplating a tax on junk food.

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