Financial and Ethical Considerations of Food Taxation

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**Abstract**

The aim of this paper is to determine the financial and ethical considerations of implementing a food tax. Obesity is a prevalent and growing issue in Canada (World Health Organization, 2000; Lobstein, Baur, & Uauy, 2004; Tran, Nair, Kuhle, Ohinmaa, & Veugelers, 2013). The government has a number of options available to try and reduce obesity and encourage healthier diets (Public Health Agency of Canada, 2011). Applying a tax on unhealthy food is one option that has gained global recognition and support in many areas around the world (World Health Organization, 2000; Nestle & Jacobson, 2000; Cash & Lacanilao, 2007). The major considerations are determining what constitutes as junk food, how much tax to levy, and where to direct the revenues (Jacobson & Brownell, 2000; Finkelstein, French, Variyam, & Haines, 2004; Cash & Lacanilao, 2007). While implementing a tax may have positive outcomes that are better for society as a whole, the main ethical concern is the fairness of the tax to low-income individuals.

**Introduction**

Obesity has developed into a major public health challenge (World Health Organization, 2000; Lobstein, Baur, & Uauy, 2004; Tran, Nair, Kuhle, Ohinmaa, & Veugelers, 2013). Obesity is classified as a body mass index (BMI) of 30 or greater (World Health Organization, 2000). As shown in Appendix A, obesity is further separated into 3 classes according to the increased health risks associated with increasing BMI levels (Katzmarzyk & Mason, 2006). Although the accuracy of BMI to measure obesity is questionable, researchers suggest that as a proxy measure of changes in obesity, BMI is a practical measure on a population basis (Fu, et al., 2003; Brunt, Lester, Davies, & Williams, 2008).

In Canada, approximately 37% of adults are classified as overweight and 24% are obese according to BMI measurements (Shields, et al., 2010). The percentage of overweight and obese adults has been steadily increasing. Researchers suggest that if these trends continue over the next 25 years, half of Canadians over the age of 40 will be obese (Shields, et al., 2010). Individuals whose BMI falls into overweight or obese categories are more likely to experience health problems associated with excess weight (World Health Organization, 2000; Katzmarzyk & Mason, 2006).

For example, numerous chronic diseases such as diabetes, heart disease, stroke, arthritis, and cancer have been shown to be directly associated with obesity (Birmingham, Muller, Palepu, Spinelli, & Anis, 1999; Katzmarzyk & Janssen, 2004; Flegal, Carroll, Ogden, & Curtin, 2010; Anis, et al., 2010). Obesity is associated with poorer health status and more frequent use of health care services (Janssen, Lam, & Katzmarzyk, 2009; Kuhle, et al., 2011). As a result, the negative consequences of obesity are placing a substantial economic burden on Canada’s healthcare system (Birmingham, Muller, Palepu, Spinelli, & Anis, 1999; Katzmarzyk & Janssen, 2004; Anis, et al., 2010).

**Cost of Obesity**

The costs of obesity can be grouped into two categories: direct and indirect costs. An analysis estimated total direct costs attributable to overweight and obesity to be $6 billion, which is about 4.1% of total Canadian health care expenditures (Anis, et al., 2010). If obesity continues to increase, it is likely that direct costs will reach $8 billion in the coming years (Anis, et al., 2010). These direct costs include hospital care, physician services, services provided from other professionals, drugs, and health research (Anis, et al., 2010). While direct costs are those that require payment, indirect costs are when resources are lost (Rice, 2000).

Indirect costs include productivity losses, diminished quality of life, and risk of poor health and premature mortality (Birmingham, Muller, Palepu, Spinelli, & Anis, 1999; Neovius, Rehnberg, Rasmussen, & Neovius, 2012; Livingston & Ko, 2012). Productivity losses occur when an individual is unable to work due to health reasons such as sick leave or disability pensions. Results of a study show that productivity losses over a lifetime are two times the amount for an obese individual compared to a normal weight individual (Neovius, Rehnberg, Rasmussen, & Neovius, 2012). Obesity also has an impact on individual’s quality of life. For example, obesity can cause inability to perform personal care and routine needs, as well as preventing or limiting ability to working (Livingston & Ko, 2012).

**Food Tax Proposition**

Obesity has become an epidemic (World Health Organization, 2000; Eisenberg, Atallah, Grandi, Windle, & Berry, 2011; Gotay, et al., 2012) that is burdening society with direct and indirect costs. Obesity has traditionally been considered a medical “problem” for physicians to treat (Wang & Brownell, 2005). However, the World Health Organization states that government involvement is essential in reaching long-lasting results that show an improvement in public health (World Health Organization, 2004).

The Canadian government can implement a number of initiatives in an attempt to reduce obesity and encourage healthier diets. These initiatives include: implementing subsidy programs to support healthy eating, improving food labelling to help consumers understand health implications, regulating marketing of junk food to children, and introducing financial incentives in the form of tax credits (World Health Organization, 2000; Nestle & Jacobson, 2000; Raine & Wilson, 2007; Brownell, et al., 2010; Public Health Agency of Canada, 2011). The main barrier to executing many of these initiatives is the lack of funding available (Nestle & Jacobson, 2000).

Another initiative available to the government is to implement a tax on food that is considered unhealthy (World Health Organization, 2000; Nestle & Jacobson, 2000; Public Health Agency of Canada, 2011). The objective of this initiative is a two-fold. Firstly, to discourage the consumption of unhealthy, energy-dense foods by increasing price (Cash & Lacanilao, 2007; Powell & Chaloupka, 2009; Engelhard, Garson, & Dorn, 2009). By decreasing consumption, the objective of reducing obesity and healthcare costs can be reached. Secondly, to provide incentive to manufacturers to alter production processes to reduce fat, salt or sugar content, in order to maintain their market shares (Madore, 2007).

Applying a tax on unhealthy food is one option that has gained global recognition and support in many areas around the world (World Health Organization, 2000; Nestle & Jacobson, 2000; Cash & Lacanilao, 2007). A junk food tax places responsibility at the societal and population levels and focuses on influencing the factors that are causing obesity, such as consumer’s lifestyle (Wang & Brownell, 2005). This type of approach has been used successfully to reduce cigarette smoking in Canada, with tobacco taxes (Wang & Brownell, 2005; Gostin, 2007).

**Benefits of Food Tax**

The primary purpose and benefit of implementing a junk food tax is to reduce the consumption of unhealthy food (Powell & Chaloupka, 2009; Engelhard, Garson, & Dorn, 2009). If consumption of unhealthy food can be reduced, then there could be a potential domino effect. Ideally, this effect would result in a decline of obesity, the number of associated chronic diseases, and healthcare costs (Cash & Lacanilao, 2007; Engelhard, Garson, & Dorn, 2009). While raising prices reduces consumption, it could also potentially alter consumption behaviours (Mytton, Clarke, & Rayner, 2012).

Encouraging personal responsibility is another benefit in implementing a junk food tax (Engelhard, Garson, & Dorn, 2009). This theory suggests that the person who causes the negative effects should take personal responsibility of the negative results (Brownell, et al., 2010). Obese individuals are increasing healthcare costs, yet all Canadian taxpayers are bearing the negative result. Implementing a food tax will result in obese individuals indirectly paying more back into the healthcare system and taking responsibility for their own lifestyle choice (Brownell, et al., 2010).

Another benefit of a junk food tax is that the revenues raised can be used for change (Jacobson & Brownell, 2000). Small taxes on a wide range of foods can result in raising substantial revenues. For example, across the United States there was a special tax levied on soft drinks, candy, and other snacks raised approximately $1 billion per year (Jacobson & Brownell, 2000). Many anti-obesity efforts have been proven to work in the past, but these efforts require financing (Nestle & Jacobson, 2000). Revenue raised from the tax can be used to subsidize healthy food to make the healthy food more affordable for individuals. In addition, the tax revenues could be used to fund nutrition and physical activity programmes to teach and encourage healthy eating and physical exercise (Jacobson & Brownell, 2000).

**Drawbacks of Food Tax**

The greatest shortcoming of the junk food tax is that it has been implemented in areas before and results show that it fails to directly target the cause of obesity (Von Tigerstrom, Larre, & Sauder, 2011). For example, a junk food tax was implemented in Denmark on certain products and the tax ended up being removed as results showed that eating behaviours were not changing (Ha, 2012). Since the tax has been shown to fail in the past, this could be an indicator of the results to expect in Canada. If eating behaviours and lifestyle mannerisms are not altered by the junk food tax, then the real issue at hand is not being targeted and obesity will not decrease (Von Tigerstrom, Larre, & Sauder, 2011).

Another disadvantage of the junk food tax is the impact on low-income individuals (Engelhard, Garson, & Dorn, 2009; Willms, Tremblay, & Katzmarzyk, 2012). The lower your income, the less likely you are able to afford healthy food. Part of the issue for obese individuals is that they lack the finances to afford healthy food (O'Dea & Eriksen, 2010). A tax on junk food will prevent low-income families from being able to afford equally healthy food. (Willms, Tremblay, & Katzmarzyk, 2012). As such, these individuals could end up eating food that is unhealthier which contradicts the reasoning for a junk food tax. Therefore, a tax on junk food has the potential to worsen the economic situation for low-income families and individuals (Engelhard, Garson, & Dorn, 2009; Willms, Tremblay, & Katzmarzyk, 2012). This type of tax is regressive and is primarily affecting low-income individuals, which is an unintended consequence of the food tax (Kim & Kawachi, 2006).

There is also the disadvantage of public rejection (Caraher & Cowburn, 2005). In New York, for example, Mayor Michael Bloomberg worked to pass a ban on large sodas as a way to fight obesity. Critics dismissed the ban as they felt that Bloomberg was in the “nanny-state mentality” and that the ban would fail because consumers would eat what they want either way (Surowiecki, 2012). Consumers may feel that their freedom of choice is being taken away. Some consumers of normal weight that consume unhealthy food will be unfairly burdened by a junk food tax (Finkelstein, French, Variyam, & Haines, 2004; Cash & Lacanilao, 2007). For example, not only are these consumers already bearing the healthcare costs of obese individuals, they must also pay an additional tax on junk food they want to consume. Producers and retailers, along with consumers, will be affected by a junk food tax. If there are additional laws or taxes affecting consumer’s buying behaviours, then there is potential that these producers and retailers will pose legal challenges towards policymakers (Caraher & Cowburn, 2005; Cash & Lacanilao, 2007).

Perhaps the biggest challenge in implementing a junk food tax is determining what constitutes as junk food (Cash & Lacanilao, 2007). Fast food, carbonated beverages, and foods high in sugar and fat are the likely targets for taxes, considering it is generally accepted that over-consumption of these items is associated with weight gain (Finkelstein, French, Variyam, & Haines, 2004). Although evidence shows that excess consumption of these foods results in weight gain, there is no evidence that suggests applying a tax on them would reduce obesity and improve health (Finkelstein, French, Variyam, & Haines, 2004; Von Tigerstrom, Larre, & Sauder, 2011). Considering the availability of substitute foods, it is unlikely that applying taxes on a narrow line of products will have a positive effect on obesity and overall health (Finkelstein, French, Variyam, & Haines, 2004). For example, taxes on soft drinks may reduce soda consumption but increase the consumption of other beverages high in sugar and calories.

**Financial Considerations**

Even after guidelines on which foods to tax are established, a major consideration is determining how much tax to levy. In order to make this decision, policymakers need information concerning how much consumption will change due to a given change in price. For example, implementing a relatively small tax may not noticeably affect consumption, whereas a large tax may affect consumption but increase food insecurity among low-income consumers (Finkelstein, French, Variyam, & Haines, 2004).

Another financial consideration is the cost versus benefit outcome, how much revenue will be raised and will it result in a positive outcome. Small taxes on unhealthy foods, such as soft drinks, snacks, or junk food, have been imposed in Australia, Canada, Finland, Norway, and some states of the U.S. (Jacobson & Brownell, 2000). In Norway, for example, taxes are applied on foods with high salt, sugar, or fat content; as a result the tax is more so considered a “calorie” tax rather than a “fat” tax (Caraher & Cowburn, 2005).

In the US there are examples of states that are more concerned with generating income. For example, Arkansas, Washington and West Virginia have special taxes on soft drinks; Minnesota charges sales tax on candy, chewing gum and ice cream; and Texas imposes a candy tax (JP Morgan, 2003). In early 2002, California attempted to impose a levy of $0.21 per gallon of soda and $2 per gallon of concentrate. This soda tax would have generated $342 million a year in revenues to be shared between schools that stopped selling soda on their campuses (JP Morgan, 2003). In most of the examples in the US, the tax is applied to a category of food rather than applied in relation to nutrient content (Caraher & Cowburn, 2005). Regardless of motive, whether to influence behaviour or raise revenue, applying food tax as shown to be successful in raising revenues (Jacobson & Brownell, 2000).

Another consideration is determining where the revenues from the tax will go. It is important that the revenues be used to reduce obesity by improving health (Jacobson & Brownell, 2000; Nestle & Jacobson, 2000; Katzmarzyk & Janssen, 2004). While the revenues could be directed at reducing healthcare expense, this would fail to reduce obesity and healthcare costs would either stay at the same level or increase. Some other options would include directing the funds towards education and exercise programs, labelling improvements, and subsidy programs (Nestle & Jacobson, 2000; Raine & Wilson, 2007). The key is to ensure that obesity is reduced rather than financed. This requires finding a solution to decrease obesity.

**Ethical Considerations**

Along with these considerations, there are also ethical concerns surrounding the implementation of a food tax. Deontology theory states that the morally correct action is chosen without regard to the positive or negative consequences that result (Macdonald & Beck-Dudley, 1994). This theory is based on neutral ground. Since a junk food tax is claimed to be unfair, discriminatory, and a threat to freedom of choice there is argument that the implementing a tax is unethical (Dorsey, 2010).

Consequentialism theory states that an action is to be ethically judged by analyzing the resulting consequences (Dorsey, 2010; Pettit, 2012). In the case of implementing a junk food tax, there are arguments for either side. For example, there can be unfair and discriminatory implications if the action is deemed to be good for society as a whole. Since the junk food tax is addressing the issue of obesity and attempting to reduce healthcare costs it can be considered an action that will be good for society as a whole. Therefore, from this perspective, a junk food tax is justifiable. However, if we consider another perspective, there is potential that the government will implement the food tax and no matter if it improves public health they will keep the policy implemented in order to continue on with the revenue stream. Since there are arguments for either side of this theory, it is not arguable (Dorsey, 2010).

Another aspect to consider is the social justice of a junk food tax. There is evidence to show that this tax is regressive and will significantly impact the low-income individuals and families (Willms, Tremblay, & Katzmarzyk, 2012). Aspects to consider are fairness and equality of this impact. Is the health of Canadians being protected if they have no choice but to purchase lower grade food than what they can afford now?

**Recommendation**

Given the fact that obesity is a major public health challenge (World Health Organization, 2000), there is no question that something needs to be done. If we are to combat obesity, a public health approach is needed that includes legislative interventions (Gostin, 2007). Applying a tax on unhealthy food is a viable option; however, it should not be used on its own. The recommendation provided contains two phases. The first phase is to implement a tax on foods with high fat, sugar, and salt content. Given the number of available substitutes, the issue of obesity is more likely to be targeted if the tax is placed based on nutritional value rather than certain food categories (Caraher & Cowburn, 2005). The second phase is to use the revenues raised to provide resources to obese individuals. These resources include: implementing subsidy programs to support healthy eating, improving food labelling, and providing education and exercise programs. Offering these resources is essential because the tax on its own has little chance to alter obese individual’s lifestyle. The key is to ensure that obesity is reduced, not just financed. If the tax revenues are only used to reduce healthcare costs then we are not fixing the real problem at hand.

**Conclusion**

Obesity has been steadily increasing and has developed into a major public health challenge (World Health Organization, 2000; Lobstein, Baur, & Uauy, 2004; Tran, Nair, Kuhle, Ohinmaa, & Veugelers, 2013). If obesity continues to increase, it is likely that direct costs will reach $8 billion in the coming years (Anis, et al., 2010). It is important that the government is involved in implementing initiatives to target obesity. Applying a tax on unhealthy food is one option that has gained global recognition and support in many areas around the world (World Health Organization, 2000; Nestle & Jacobson, 2000; Cash & Lacanilao, 2007). While there are benefits and drawbacks to a junk food tax, the major considerations are determining what constitutes as junk food, how much tax to levy, and where to direct the revenues (Jacobson & Brownell, 2000; Finkelstein, French, Variyam, & Haines, 2004; Cash & Lacanilao, 2007). While implementing a tax may have positive outcomes that are better for society as a whole, the main ethical concern is the fairness of the tax to low-income individuals. The recommendation provided outlines a two phase process. First, implement a tax on foods with high fat, sugar, and salt content. Second, use the revenues raised to provide resources to obese individuals.

Appendix A



Source: (World Health Organization, 2000)

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