

Item #8

Summary of New Zealand Initiative Report “Health of the State”

Draft summary of the New Zealand Initiative report 'The Health of the State' (published 20 April 2016), prepared for internal use only, 7 April 2016

Summary of the New Zealand Initiative Report *The Health of the State*

On April 6, 2016, we received an embargoed copy of the soon-to-be-released report *The Health of the State*. The report is embargoed until Wednesday the 20th of April. The report is an overview of current trends in the use of regulation and fiscal measures, including taxes, to influence consumption of unhealthy foods (mainly sugar), e-cigarettes and alcohol. It aims to expose the flawed evidence base that may underlie policy decisions and actions of lobby groups.

Food taxes

While the section on food taxes raises many general issues, sugar taxes are the main focus. The report notes that lobby groups make claims that millions of dollars can be raised and many lives can be saved through a tax on sugar or sugar-sweetened drinks. It suggests that lobby groups are attempting to sell the idea on two mutually exclusive outcomes: Substantial tax revenues are expected if there is little effect on behaviour but it would take a substantial effect on behaviour to get significant health gains. The report also notes that while the Ministry of Health recognises the importance of both diet and exercise, lobby groups' calls for intervention into diet have been far louder than calls to promote exercise and active lifestyles.

The report explains that support for sugar taxes is largely based on a number of studies which are fundamentally flawed, including studies published in major medical journals as well as studies produced and quoted by New Zealand public health experts. In a review of published studies of sugar taxes, the author found that the evidence base suffers from the following major shortcomings:

- Studies do not account for all possible substitutions, including frequently ignoring potentially important substitutions within the food group (to other brands and sizes which allow taxes to be offset by the lower pre-tax price associated with budget brands and larger volumes), and between food groups (such as to sugary foods, high fat foods, or alcoholic beverages).
- Published estimates of price elasticities (how sensitive consumers are to changes in price) are often loosely extrapolated from consumer expenditure data, not data on volumes consumed. Conclusions about consumption are therefore implicitly based on an assumption of no substitution within a product category (e.g. from higher priced to lower priced brands) or to increased purchases of the same products at special promotional prices.
- Because studies fail to capture volumes consumed or consumption of all possible substitutes, conclusions on caloric intake are based on assumption.
- Studies fail to show that a change in consumption of the targeted product translates into weight loss or a reduction in weight-related illness.
- Most studies are based on household survey data or measurement of household purchases and the estimated amounts are not cross-checked with sales data and tax revenues.
- Studies fail to control for confounding variables, especially the effect of policies put in place at the time of the tax or the effect of the public debate surrounding the tax.

The report points out that even if the evidence were strong that a food tax can achieve its purported purpose, there are additional policy implications to consider. One of these is the deadweight loss of a tax. The report points out that Treasury has noted that improvements in population health, including those that contribute to improvements in productivity and economic growth, need to be weighed against the deadweight economic costs associated with taxes. Furthermore, a tax may require the taxable content of foods to be monitored, calculated and recalculated as formulations change, imposing a significant administrative burden on both government and businesses. The costs of a tax will also be borne not only by consumers and the industry that produces the targeted goods but also by the hospitality industry and small businesses through reduced consumer demand and the

costs of tax administration. In addition, the redistributive effects of food taxes are opposite to the redistributive effects of other policies such as a progressive income tax system: Food taxes hit the poor hardest. A food tax also imposes costs on consumers who are not the intended targets of the policy (such as poor people who are healthy) yet may fail to have any effect on some who should be targeted (such as relatively well-off obese people).

The report suggests that measures to improve awareness and preferences for healthy foods are preferred to food taxes as a way of motivating changes in behaviour without the negative effects of a tax and with beneficial effects not only for individuals' health but also for overall welfare.

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