

Sugar tax in Singapore - too bitter a pill to swallow?

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The sugar tax was mentioned in Prime Minister Lee Hsien Loong's National Day Rally as a solution that has been considered and implemented in other countries to reduce the intake of dietary sugar. He stated that over-consumption of sugar is correlated with an increased risk of diabetes, a major health issue in Singapore.

PM Lee's dietary advice is in line with the World Health Organisation's (WHO's) recommendation of curbing obesity by reducing excessive dietary sugar intake. Obesity, in turn, is linked to many non-communicable diseases, including diabetes. A 2013 study from Stanford University suggests that diabetes prevalence in a population is correlated with changes in sugar consumption.

From an economic perspective, an individual's over-consumption of sugar not only comes at a cost to the individual's health but also imposes external costs on society by burdening the health system and lowering productivity in the long run. Imposing a sugar tax should, in theory, be an efficient and simple way to discourage this undesirable consumption.

WHO has recommended increasing sugar-sweetened beverage (SSB) prices by at least 20 per cent to get a more than proportional drop in consumption of such beverages.

The raised tax revenue can be earmarked for preventive and corrective healthcare as well as public education activities to fight obesity, diabetes and other related diseases. It may also incentivise producers to lower the sugar content and availability of sugar-laden food and drinks.

So, is the sugar tax a winner?

SWEET SUCCESSES?

A British Medical Journal article last year showed that SSB purchases in Mexico fell over a period of two years after a tax on SSBs was introduced. More importantly, lower-income households had the biggest decline in consumption of SSBs.

Lower-income households spend a larger proportion of their income on necessities like food and water.

According to the 2013 Singapore Household Expenditure Survey, households in the bottom income decile spent 9.9 per cent of their monthly expenditure on food. The figure for households in the top decile, in contrast, was just 4.2 per cent.

To optimise their energy intake and finances, it is expected that lower-income households would generally spend more on cheap high-caloric sugar-laden processed food and drinks. A sugar tax will reduce access to this cheap source of energy intake.

This highlights the regressive nature of the sugar tax - it places a disproportionate burden on lower-income households. Given the susceptibility of lower-income individuals to dietary obesity and related health issues, one might argue that this is a positive outcome - reducing the risk of health problems to a population that is vulnerable.

Yet an excessive quantum of sugar tax might push such households into hardship. The trade-off between effectiveness and equity is a key consideration in setting the optimal amount of a tax. Measures must be taken to mitigate its impact on the poor.

Many more questions will arise in a discussion on sugar taxes. Will a sugar tax spur the development of new cheaper and safer sugar substitutes? Will consumers and producers respond rationally or will augmentation with behavioural insights be needed?

A possible measure is to make affordable healthy meal choices available to low-income families through rebates, meal vouchers and the like. It is probably better to keep sugar taxes high enough to achieve its efficiency objective and introduce a separate rebate to deal with the consequent regressivity.

Such a rebate must be designed so it cannot be used to buy sugar-laden products, or it would defeat the purpose of a sugar tax in the first place. Public health officials may need to work closely with social service professionals, voluntary welfare organisations and community groups to ensure this.

One should not discount the ability of lower-income families to adapt positively to such changes. Recently, the Social Science Research Council awarded a grant to researchers for identifying positive adaptive pathways in Singapore's low-income families. Policymakers can follow up on such studies to evaluate the impact of a sugar tax and the use of rebates.

In 2015, a sugar tax on sugar-sweetened beverages was introduced by the City of Berkeley, California - the first US jurisdiction to do so. A study published this year in Plos Medicine showed that sales of such beverages in Berkeley fell by 9.6 per cent after a one cent per fluid ounce (250ml = 8.5 fl oz) excise tax was introduced.

Berkeley used a volume-based tax which is easier to administer. A more targeted approach would be to tax products according to the amount of added sugar, much like current Singapore alcohol taxes. This will incentivise consumers to choose healthier substitutes, and producers to lower sugar content.

However, this approach can also be contentious. Added dietary sugar is listed as different ingredients in a food product, ranging from fruit juice concentrates to fructose. It may be difficult to track the actual amount of added sugar in a product.

This is one of the reasons why most sugar taxes are limited to SSBs. Should a sugar tax in Singapore be limited only to SSBs or extended to processed food?

Should white rice, a staple part of Singaporeans' diet, be taxed as well since it has been linked to an increased risk of diabetes?

Policymakers will need to understand the population's dietary consumption patterns in order to elicit the most effective way of implementing sugar taxes.

Denmark abolished a decades-old SSB tax in 2013 and abandoned plans to introduce a wider tax on sugar-laden food. Due to easy border access within the European Union, Danes purchased and consumed SSBs across the border in Germany and Sweden.

Since Singapore imports more than 90 per cent of the food it consumes, introducing the sugar tax as an import tax may help lessen some of the complications, such as what to tax and cross-border shopping. The burden will fall on importers to declare the amount of added sugar in their products.

A STICKY DILEMMA

Many more questions will arise in a discussion on sugar taxes. Will a sugar tax spur the development of new cheaper and safer sugar substitutes? Will consumers and producers respond rationally or will augmentation with behavioural insights be needed?

Where do we draw the line for taxing undesirable dietary choices? For example, should a salt tax be implemented given that the overall concern is on long-term human health? To what extent do matters of dietary choices require government intervention?

Some people might say that when it comes to food choices, they should have complete freedom in making those choices as they are solely responsible for the health cost that they would incur.

However, the cost goes beyond personal choices.

A similar case can be made against smoking. It also affects families, in raising both the monetary and time costs of their long-term healthcare. There is perhaps a strong argument for government intervention to correct a seemingly harmful market failure. This is one reason why many countries including Singapore impose additional taxes on tobacco.

Should sugar also be taxed for similar reasons? A carefully thought-through sugar tax should have a part to play in reducing sugar consumption and managing current and potential health problems in Singapore. Studies will be needed to examine its potential costs and benefits in the Singapore context.

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Correction note: This article has been amended to reflect that according to the 2013 Singapore Household Expenditure Survey, households in the bottom income decile spent 9.9 per cent of their monthly expenditure, not income, on food. We are sorry for the error.