

# IB Economics – Commentary 1

<b>Title of article:</b>	The 2018 UK sugar tax
<b>Source of the article and link:</b>	<a href="https://www.diabetes.co.uk/nutrition/2018-uk-sugar-tax.html">https://www.diabetes.co.uk/nutrition/2018-uk-sugar-tax.html</a>
<b>Date the article was published: Day – month - year</b>	5 June 2018
<b>Date the commentary was written: Day – month - year</b>	21 September 2018
<b>Word count (750 words maximum):</b>	744 Words
<b>Section of the syllabus the article relates to: (choose one only)</b>	Section 1 Microeconomics <input checked="" type="checkbox"/> Section 2 Macroeconomics _____ Section 3 International Trade _____ Section 4 Development Economics _____

**SOURCE: Diabetes.co.uk**

**5 June 2018**

### **The 2018 UK sugar tax**

The sugar tax will be levied at total sugar content over 5g per 100ml

In March 2016 the government announced that a tax on sugary soft drinks would be introduced in the UK from 2018. Long-time campaigners rejoiced at the news as former chancellor George Osborne declared the government was committed to tackling rising rates of obesity and type 2 diabetes.

The levy will tax the soft drinks industry for total sugar content over 5g per 100ml and apply to drinks such as Coke, Red Bull and Irn Bru. It is estimated to raise around £520 million a year, which will be spent on increasing funding sport in primary schools.

But the road to the 2018 UK sugar tax was not easy. Doctors, campaigners and scientists had remained frustrated for years that their calls for a sugar tax were ignored by the government, and before Mr Osborne's announcement in March 2016 it appeared that their pleas were going unheard.

### **Doctors and scientists unite**

In July 2015 the British Medical Association (BMA) urged the government to introduce a 20 per cent tax on sugar, saying it would combat escalating rates of obesity and type 2 diabetes. The report was well received by sugar tax campaigners such as Action on Sugar and celebrity chef Jamie Oliver.

Just two weeks later a University of Cambridge study highlighted why a sugar tax could be so beneficial. Their researchers discovered that 8,000 cases of type 2 diabetes a year were linked to sugary drinks consumption.

We then investigated how a proposed sugar tax would work in the UK and whether, politically, it would be justifiable in implementing.

At this point, Mexico was having great success with its sugar tax: sales of sugary soft drinks had been reduced by six per cent in its first year. [239] But in late-2015 it didn't seem that the UK government had any intention of introducing anything similar.

David Cameron responded to a Public Health England (PHE) report calling for measures to tackle obesity by saying there were "more effective ways of tackling obesity" than a sugar tax.

But the concept kept generating more support, with more and more global organisations getting involved. In November 2015 the International Diabetes Federation (IDF) added their backing for world leaders to use sugar taxes in fighting obesity and type 2 diabetes.

The turn of 2016 further put pressure on the government. Queen Mary University scientists in London concluded that reducing sugar in soft drinks by 40 per cent over five years could prevent 300,000 cases of type 2 diabetes and 1.5m cases of obesity in the UK.

While the studies came thick and fast, the government backtracked, delaying its childhood obesity strategy and tentatively suggested that a sugar tax was unlikely to be included.

The delay was described by “unacceptable” by campaigners as the government rescheduled its long-awaited strategy for the summer of 2016.

### **The sugar tax is announced**

It came as a surprise to many when Mr Osborne included a planned sugar tax as part of the 2016 Budget in March.

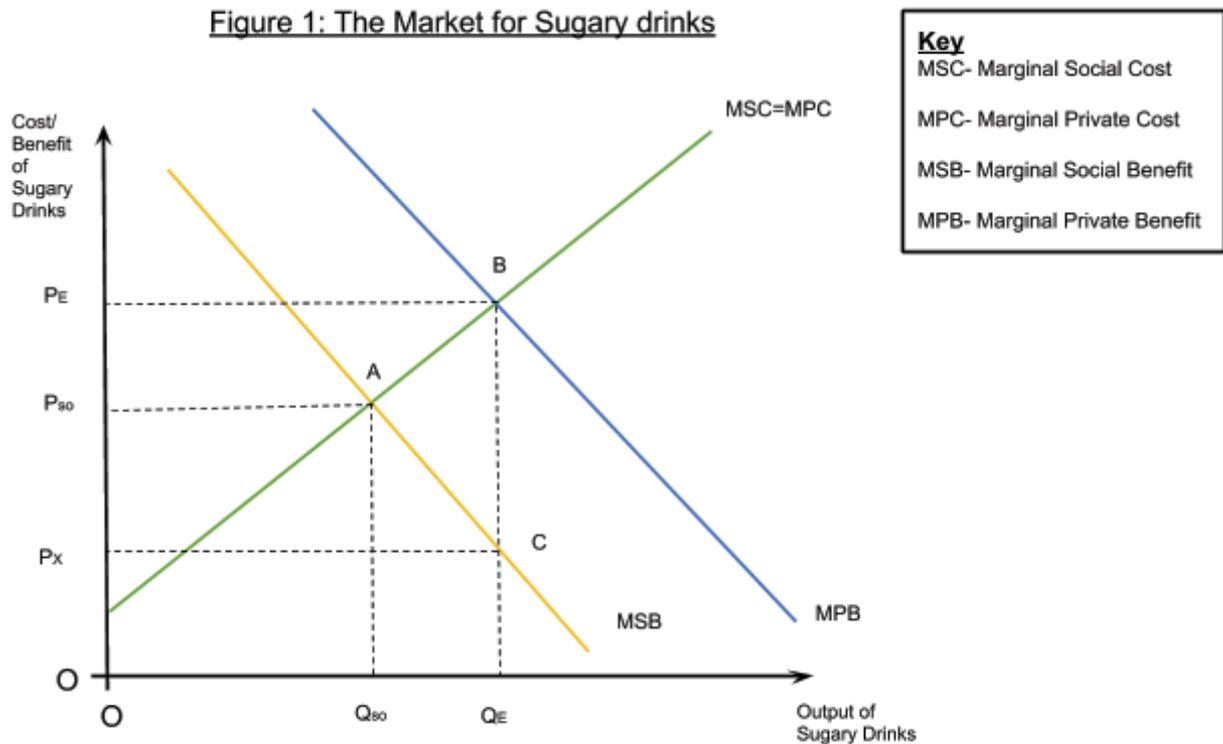
Speaking at the House of Commons, Mr Osborne said: "I am not prepared to look back at my time here in this Parliament, doing this job and say to my children's generation 'I'm sorry. We knew there was a problem with sugary drinks. We knew it caused disease. But we ducked the difficult decisions and we did nothing'."

It was revealed that manufacturers of soft drinks will be taxed on the volume they produce or import. Drinks will fall into two bands: one for total sugar content over 5g per 100ml, and a second band for drinks with more than 8g per 100ml.

The tax will not directly affect consumers, but some people with diabetes were left wondering if it meant hypo treatments such as Lucozade would become more expensive. We looked at the maths behind the tax and sought to assuage the diabetes community regarding the levy's cost implications.

### Commentary

This article concerns the UK government initiating an indirect tax on the sugar content of soft-drinks to reduce obesity; a tax levied by the government on the producer of goods or services. The government is addressing the market failure of sugar, a demerit good, a good with negative externalities of consumption, causing market failure as resource allocation is inefficient.



Initially, the market operates at  $(Q_E, P_E)$ . However, the government identifies an overconsumption of  $(Q_E - Q_{SO})$ , causing a welfare loss of area ABC. This is because at  $Q_E$ ,  $MPB > MSB$ , meaning that society incurs a greater cost than it benefits, possibly as healthcare costs (the external costs) outweigh the instant gratification granted by sugar consumption. Market failure thus occurs because production occurs beyond the social optimum output ( $Q_{SO}$ ) of MPB. B-C is the negative externality of consumption ( $Q_E$ ). The market is overvalued by  $(P_E - P_{SO})$  causing market failure as external costs of  $(P_E - P_X)$  not being paid.