

New Jersey Reflections on Philadelphia’s Sugary Beverage Tax...

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A 2018 report by Bloustein alumna Holly Low¹ successfully argued why New Jersey’s lawmakers should increase preschool aid. She showed that over 400,000 New Jersey mothers with children under the age of 6 balance child care and their careers. Moreover, 32 percent of NJ mothers with young children (130,000 families) live below 200% of the federal poverty level and, worse, half of those live on just \$24,000 annually, then 100% of the federal poverty level for a family of four. This, in a state that has a cost of living that is about a third more than the national average.

Ms. Low’s point is that childcare costs are largely out of reach for those New Jersey families who could most use income from jobs that can only be secured if access to childcare is possible. Moreover, citing work by researchers at Rutgers’ own National Institute for Early Education Research,² she notes that graduates of high-quality preschools in the state tend to perform better later in their school careers on several measures. That is, with subsidies for use at approved pre-schools, not only could some families pull themselves out of poverty by their own bootstraps but the children would also prove more successful in the long run. That is, for the cost of something on the order of \$12,000 per family per year,³ New Jersey taxpayers could almost immediately avoid paying out a substantial share of its public assistance allocations and also reduce the potential for dependency in the next generation of taxpayers.

Alas, Ms. Low did not suggest a source for the funds of this state childcare subsidy and did not declare the concept tax-neutral. It appears, however, that the City of Philadelphia has come upon a fine solution—a tax on sugary beverages that is largely used to subsidize child daycare for qualifying families, those within 200% of the poverty line.⁴

Like a tax on cigarettes or alcohol, the idea behind the tax is to lower consumption of sugary beverages by Philadelphians. A 2013 Credit Suisse report states that 30% to 40% of US-wide health expenditures pertain to issues closely related to the over-consumption of sugar.⁵ This suggests that negative externalities associated with sugary beverages are substantial. Moreover, Senator Bernie Sanders correctly identifies the tax as being regressive, although he does so to denounce the tax, not to praise it.⁶ But that is the point of the tax—to reduce health issues particularly among Philadelphia’s poorest who spend more on sugary beverages. (See the figure on the next page.)

Philadelphia centralizes the payment of this tax which is paid by all organizations that distribute any sugar-sweetened beverage within the city. At 1.5 cents per ounce, it adds about \$1 to the cost of a two-

¹ Low, Holly. (2018). “Increasing Opportunities for Working Mothers Would Boost the Economy,” *New Jersey Policy Perspective*, January. Available online in October 2021 at <https://www.njpp.org/wp-content/uploads/2018/01/NJPPEarlyCareJan2018.pdf>.

² Friedman, Allison, Ellen Frede, Dale Epstein, Rachel Sansanelli, Debra Ackerman, & Judi Stevenson-Boyd. (2009). *New Jersey Preschool Expansion Assessment Research Study (PEARS)*. National Institute for Early Education Research. <https://nieer.org/wp-content/uploads/2016/12/PEARS-Statewide-Report-3-5-10.pdf>.

³ Clark, Adam. (2019). “The Cost of Daycare in All 21 N.J. Counties, Ranked from Least to Most Expensive,” *NJ.com*, January 22. Available online in October 2021 at <https://www.nj.com/news/g66l-2019/01/f350923ebe9277/the-cost-of-daycare-in-all-21-nj-counties-ranked-from-least-to-most-expensive.html>.

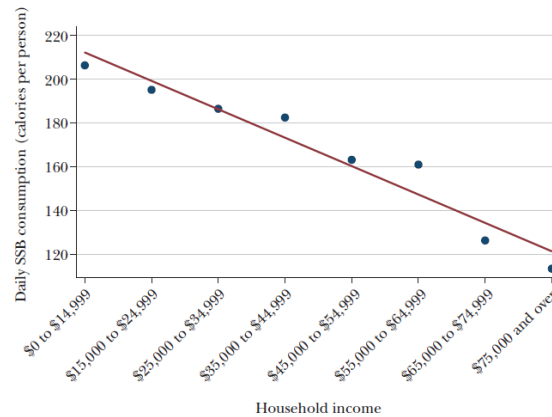
⁴ City of Philadelphia, Bill No. 160176 available online in October 2021 at <https://www.phila.gov/services/payments-assistance-taxes/business-taxes/philadelphia-beverage-tax/>.

⁵ Natella, Stefano, Vamil Divan, Mujtaba Rana, & Charlie Mills. (2013). *Sugar Consumption at Its Crossroads*. CREDIT SUISSE AG Research Institute: Zurich, Switzerland. Available in October 2021 at https://research-doc.credit-suisse.com/docView?language=ENG&source=ulg&format=PDF&document_id=1022457401&serialid=atRE31ByPkIjEXa/p3AypTovIGdxTK833tLZ1E7AwIQ=

⁶ Sanders, Bernie. (2016). “A Soda Tax Would Hurt Philly’s Low-Income Families,” *Philadelphia*, April 24. Available online in October 2021 at <http://www.phillymag.com/citified/2016/04/24/bernie-sanders-soda-tax-op-ed/>.

liter bottle, about a 30% rise. Research shows that while effected on wholesalers, it is effectively a retail tax, as its incidence almost entirely falls upon (passes through to) consumers. In fact, researchers have found that, in response to the price rise, demand for sugary beverages in Philadelphia decreased by 31 to 46% with no noticeable changeover to bottled water and modest substitution toward (untaxed) natural juices.⁷

Sugar-sweetened Beverage Consumption by Household Income



Source: Hunt A. Allcott, Benjamin B. Lockwood, & Dmitry Taubinsky. (2019). "Should We Tax Sugar-Sweetened Beverages? An Overview of Theory and Evidence," *Journal of Economic Perspectives*, 33(3), 202–227.

In a recent Rutgers University study of this tax in Philadelphia assessed how the loss of jobs in distribution of sugary beverages from the tax played out against gains in the provision of day care services due to the re-allocation of the tax revenues.⁸ Outside of local tax revenues themselves, economic outcomes were rather neutral, with gains in jobs and income from daycare services cancelling losses by distribution-related industries.

Note, the portion of the report mentioned just above did not consider job gains by parents of the families able to enjoy the daycare services. An ever-increasing stream of evidence suggests, however, that expenditures on child care subsidies significantly increase labor force participation and employment rates of low-income mothers.⁹ In any case, once job gains by parents of families able to take advantage of Philadelphia’s childcare subsidies are taken into account, the same Rutgers University report showed a strong positive net effect for both private industries and tax coffers in Philadelphia.

The moral of this story is that New Jersey’s lawmakers should think about replicating the Philadelphia story. Taxing sugary beverages and subsidizing child daycare to qualifying providers is a win-win-win game. New Jerseyans are apt to be healthier, rely less on public assistance, and have more children who are better prepared to meet their futures.

⁷ Cawley, John, David Frisvold, Anna Hill, & David Jones. (2019). “The Impact of the Philadelphia Beverage Tax on Purchases and Consumption by Adults and Children,” *Journal of Health Economics*, 67, 102225.; Seiler, Stephan, Anna Tuchman, and Song Yao. (2020). “The Impact of Soda Taxes: Pass-through, Tax Avoidance, and Nutritional Effects,” *Journal of Marketing Research*, 0022243720969401.

⁸ Lahr, Michael L. & Ye Yao. (2020). *The Total Impacts of Philadelphia’s Beverage Tax*. New Brunswick, NJ: Rutgers Economic Advisory Service (R/ECON™) & The National Institute for Early Education Research. Available online in October 2021 at <https://nieer.org/policy-issue/the-total-economic-impact-of-philadelphias-beverage-tax>.

⁹ See for example work cited in Lahr & Yao (see fn 8) as well as Enchautegui, María E., Nina Chien, Kimberly Burgess, & Robin Ghertner. (2016). *Effects of the CCDF Subsidy Program on the Employment Outcomes of Low Income Mothers*. Urban Institute for US Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation https://www.aspe.hhs.gov/sites/default/files/migrated_legacy_files/171046/EffectsCCSubsidiesMaternalLFPTechnical.pdf.