To the members of the Joint Select Committee on Deficit Reduction:

The Center for Science in the Public Interest recognizes the enormous challenges facing the Joint Select Committee on Deficit Reduction in finding budget cuts and new revenues to salvage this country’s fiscal future. Therefore, as we have in the past in other venues, we urge that you consider two revenue sources that would yield substantial new funds and help reduce some of the enormous medical and other costs associated with ill health in this country.

Taxing sugary beverages and increasing stagnant tax rates on alcoholic beverages could raise as much as $200 billion over ten years, a sizable contribution to deficit reduction. Levying those taxes has also been suggested by the Bipartisan Policy Center’s deficit reduction plan (see attached) and noted as a revenue option in annual budget papers developed by the Congressional Budget Office.

The United States has taxed alcohol since its earliest days, and in the past half-century the effective alcohol tax rate has dwindled with inflation, helping to reduce the price of those beverages and fuel excessive and destructive drinking. Taxing sugary drinks is also not a new idea. More than a dozen states, including Arkansas, California, New York, and West Virginia, have imposed excise taxes or sales taxes on sugary drinks to generate revenue for health care or other purposes.

According to a 2009 Kaiser Family Foundation survey, a majority of Americans support taxes on unhealthy items, such as sugary drinks and alcoholic beverages, particularly when the revenue generated is tied to prevention.

More than two-thirds of American adults are obese or overweight. Because of rising obesity rates, children today may be the first generation in our nation’s history to have a shorter life span than their parents. While many factors contribute to weight gain, sugary drinks are the only food or beverage shown to have a direct link to obesity, which in turn can lead to hypertension, strokes, heart attacks, diabetes, cancer, arthritis, and other health and psychosocial problems. In addition, consumption of sugary beverages can cause tooth decay and dental erosion, as well as replace more-healthy foods in the diet.

The lion’s share of alcohol in the United States is consumed in excessive quantities and contributes to a wide range of costly health, safety, and addiction problems. The annual economic toll from alcohol harm amounted to more than $148 billion in 2002 (and has grown since then), dwarfing federal and state tax receipts from the sale of alcoholic beverages. Deaths due to alcohol use number in the tens of thousands each year. As with obesity, alcohol problems have a dramatic effect on worker productivity and both alcohol and sugary drink consumption cost this nation’s businesses tens of billions of dollars annually. Those losses also result in reduced revenue from corporate and individual sources.
Americans spend $147 billion a year on medical expenditures related to obesity, of which half is paid for with Medicare and Medicaid dollars. While a wide variety of actions can help address this country’s obesity epidemic, a federal levy on non-diet sugary drinks would deter some excessive consumption and allow the government to recoup at least a fraction of the public costs associated with the use of those beverages.

Taxes on tobacco have proven to be highly effective in raising revenues and reducing consumption and harm. The same would be true for a tax on sugary drinks and for a significant increase in taxes on alcoholic beverages. The latter have not been raised in twenty years and are at near-historic low levels. For example, had the 1951 tax rate on beer ($9.00 per barrel) simply kept up with inflation since then, it would be about $78.00 today, more than four times its current rate of $18.00 per barrel. The failure to adjust alcohol tax rates for inflation over the past sixty years has cost the nation billions of dollars in lost revenue.

A tax of one cent per 12-ounces of sugar-sweetened beverage would raise about $1.5 billion annually; a tax of one cent per ounce could generate about $16 billion a year in federal revenues. Each penny tax per 12 ounces would reduce consumption by about one percent.

Raising alcohol taxes for inflation since 1991 would yield some $5 billion in new revenue per year, while increasing the tax on the alcohol in liquor by 50% and then equalizing the tax on alcohol in beer and wine to that rate, would bring in as much as $12 billion per year, even allowing for reduced consumption. The reduction in consumption would lead to substantial health and safety benefits.

We urge you to raise alcohol taxes and include a sugary drink tax in the Committee’s plans for deficit reduction, and would be happy to provide additional detailed information upon request. Thank you for your consideration.

Sincerely,

Julie Greenstein
Deputy Director
Health Promotion

George A. Hacker
Senior Policy Advisor
Health Promotion
RESTORING AMERICA'S FUTURE

Reviving the Economy, Cutting Spending and Debt, and Creating a Simple, Pro-Growth Tax System

The Debt Reduction Task Force
Senator Pete Domenici and Dr. Alice Rivlin, Co-Chairs
November 2010
The Task Force proposes a radically simplified income tax that will lower tax rates, broaden the base, and eliminate the need for millions of households to file tax returns. The plan will end most deductions and credits and simplify those that remain so that they will be more effective and better targeted. Supplementing the income tax will be a new national Debt Reduction Sales Tax (DRST) that will help to reduce the debt even while individual and corporate income tax rates fall significantly.

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6 See July 14, 2010 Senate Finance Committee testimony by Task Force Member Len Burman.
prior to broad implementation, the savings estimate above does not include potential reductions in spending from these broader reforms.

2. **Introduce an Excise Tax on the Manufacture and Importation of Beverages Sweetened with Sugar or High-fructose Corn Syrup (Non-diet Soft Drinks, Sweetened Fruit Drinks, etc.) to Reduce Obesity-related Health Care Costs**

*Description of Recommendation:* Over the past several decades, the percentage of Americans who are overweight or obese has increased dramatically. This increase has serious implications, not only for the general welfare and productivity of the population, but also for federal spending on health care. In addition, per-person spending on obesity-related diseases has risen faster than the overall rate of health care spending.

To help reduce health costs that are associated with growing obesity in America, this proposal will impose an excise tax in 2012 of 1 cent per ounce, indexed to inflation after 2018, on the manufacture and importation of beverages sweetened with sugar, high-fructose corn syrup, or similar sweeteners. The tax will not apply to artificially sweetened soft drinks – for example, those sweetened with aspartame or saccharine. Sugar-sweetened fountain-drink syrup will be taxed at a higher rate per ounce, such that the rate per ounce of fountain drink will be roughly equivalent to the tax rate on ready-to-drink soft drinks.

While sweetened beverages are not solely responsible for the increasing numbers of overweight and obese people, medical research has found that these drinks are a contributing factor, and that soft-drink consumption may also be directly associated with diabetes. Research on the effects of existing state excise taxes on manufacturers of soft drinks indicates that a federal tax of the size proposed in this option will have a small but quantifiable effect on the national average body mass index (BMI, a standard measure of obesity). By helping to reduce BMI and health problems associated with obesity – such as heart disease, diabetes, strokes, and cancer – this policy should reduce federal spending on health care, although the magnitude of this effect is difficult to project. The budget effects shown below reflect only the direct revenue impact of the excise tax.

*Cumulative Revenue in Billions of Dollars from 2012 through:*

<table>
<thead>
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<th>Year</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2040</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$156</td>
<td>$260</td>
<td>$375</td>
<td>$644</td>
</tr>
</tbody>
</table>

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28 “Fountain-drink syrup” refers to concentrated, flavored syrup that is sold in bulk to establishments such as restaurants and then is mixed with water at the point of purchase.

**Background:** The increasing number of overweight and obese individuals has serious implications for federal spending on health care. Overweight and obese individuals are at greater than average risk of developing serious illnesses, including coronary heart disease, diabetes, and hypertension. Being overweight can also aggravate chronic conditions and create complications with other less serious diseases. A number of researchers, as well as a recent Congressional Budget Office report, have estimated that average spending on health care for obese individuals is nearly 40 percent higher than spending on health care for individuals at a normal weight. In addition, spending by overweight and obese individuals on health care grew roughly 1.7 times faster than spending by those at a normal weight since 1987.

Since 1987, the number of obese adults in America has more than doubled, rising from 13 percent of the population in 1987 to 28 percent in 2007. During the same time period, the share of adults who were either overweight or obese rose from 44 percent to 63 percent. Currently, 67 percent of adult Americans are considered overweight and 33 percent are considered obese. If these trends in obesity persist, some research suggests that 86 percent of American adults will be overweight or obese by 2030.

These fundamental changes reflect not only demographic factors, such as the aging of the population – which can lead to generally higher numbers of the overweight and obese due to natural lifestyle and physiological changes – but also a significant rise in the average daily caloric intake of Americans. From 1970 to 2000, the median age in the country rose from 28.1 years to 35.3 years and the percentage of Americans over 65 rose from 9.9 percent to 12.4 percent. The Centers for Disease Control reports that, over the same period, Americans increased their daily caloric intake from an average of 1,996 calories in 1971 to 2,248 calories in 2000 – nearly a 13 percent increase. Some of this increase comes from greater snacking and the consumption of higher-calorie food options, but Americans as a whole are shifting a greater proportion of their daily calorie intake into sweetened beverages. From 1997 to 2002 alone, the percentage of total caloric intake from beverages rose from 14 percent to 21 percent. Over the past three decades, children have increased their consumption of sweetened fruit juices and non-diet soda from about eight ounces per day in 1977 to roughly 16 ounces by 2006. During the same period, adults increased their consumption of sweetened juices and non-diet sodas from five ounces in 1977 to 13 ounces in 2006.

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34 Ibid, 5.
Many have suggested taxing sweetened beverages in order to discourage their consumption and help ameliorate some of the higher medical costs associated with obesity. The U.S. Department of Agriculture estimated that a 20 percent price increase in the cost of these beverages, resulting from an excise tax, could cause an average reduction of 37 calories per day, or 3.8 pounds of body weight over a year for adults. The cost increase was also projected to result in an average reduction of 43 calories per day, or 4.5 pounds over a year, for children. These decreases in calorie intake, the Agriculture Department said, will lead to a reduction in adult overweight prevalence from 66.9 to 62.4 percent, as well as a reduction in obesity from 33.4 percent to 30.4 percent. These figures reflect strictly the effect of reduced consumption resulting from the tax.

While obesity is certainly only one of many contributors to elevated national health costs, the Task Force believes that this price increase for sweetened beverages is a step in the right direction toward addressing this factor.