International Research Journal of Human Resources and Social Sciences
Vol. 4, Issue 2, February 2017 Impact Factor- 5.414
ISSN(O): (2349-4085) ISSN(P): (2394-4218)

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THE NUANCES OF FAT TAX EXPERIENCES IN KERALA

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ABSTRACT

Taxation is an inseparable part of all economies. Taxation fundamentally discourages people from spending. Fat tax is a form of Pigouvian tax which is used by many countries to discourage the use of calorie rich foods. Today, obesity, diabetes, hypertension and cardiovascular ailments have become the most obvious and widespread reasons why people become sick, lose productivity and die. On an average, it is computed that globally obesity alone renders 3 million deaths yearly and some $2 trillion in medical costs and lost productivity. It was believed that lifestyle diseases are the concern of high-income countries only. But today it is an issue for underdeveloped countries too. For instance, India is now the 3rd most obese country in the world. Different countries like Hungary, Mexico, Japan, and Denmark have taken measures against the over-consumption of high calorie foods. But their impact is debatable. However, the southern State of India, Kerala which is known for having achieved living standards comparable to that of Scandinavian countries and also the second most obese state in India, has come out with a fairly good beginning to curb obesity and lifestyle diseases. But this measure of taxing only a few fast-food chain restaurants like McDonald's, KFC etc is not effective as the people of the State have several other options of fatty foods. There is an obvious question whether the new policy genuinely addresses the health concerns of the people, or is it simply a gimmick of the *government to appear communist and gather some additional revenue for the government treasury. There are quite a few reasons to assume that the latter is what has worked out. The article points out the other areas and measures that need to be coupled with the policy of Fat Tax to improve the health of the people in the State.*

KEY WORDS: Fat Tax, Sin Tax, Obesity, Tax, India, Kerala

Taxation has been an indispensable part of all political economies since times immemorial. Though intended to finance public infrastructure and welfare activities, taxes fundamentally discourage people from spending. It becomes all the more so when governments decide to tax certain goods and services such that people possibly refrain from consuming them. The Sin tax, a form of Pigouvian tax is a taxation method in this direction, which seeks to alleviate the consumption of goods that are undesirable for people and create negative externalities (costs borne by the economy to offset the fallouts of a market transaction) (Barthold, 1994).

Traditionally, products such as alcohol and tobacco, and activities such as gambling have been under the clutches of sin tax. But ever since the boom of Mcdonaldisation, many governments in the west resorted to implementing the Fat tax, seeking to discourage the consumption of junk foods that are unreasonably calorie-rich and sure slow-killers. Foods like pizzas, burgers, deep-fried meat, fatty desserts and sugar sweetened beverages that are notorious for yielding a host of lifestyle diseases, and consequentially call for huge investments in the health sector are covered under the regime of fat tax. Obesity, diabetes, hypertension and cardiovascular ailments have become the most obvious and widespread reasons why people become sick, lose productivity and die. On an average, it is computed that globally obesity alone renders 3 million deaths yearly and some $2 trillion in medical costs and lost productivity (Dobbs & James, 2015).

For quite a long time, it was believed that lifestyle diseases triggered by calorie-rich foods is an issue of concern only in high-income countries. But since the late 1990s, obesity has come to be a matter of grave concern in the developing nations of the global south, including Africa. For instance, in 1975 India was ranked the 19th most obese country in the world, while now it figures 3rd, next only to China and USA (Bhattacharya, 2016). Given the proliferation of fast-food outlets in Indian cities, it's not a surprise that nearly 8% of the population have diabetes (Dhar, 2016). The National Health Survey conducted in 2015-2016 reveals that the percentage of obese people has doubled from the number recorded a decade ago (NFHS-4, n.d.). So in the Indian scenario, there is indeed a strong case that some sort of fiscal intervention be implemented to combat the growing rates of obesity; and Fat tax is a fairly good measure in this direction.

How Fat Tax Works?

The objective of Fat Tax is two-fold. Primarily the intention is to increase the price of unhealthy edibles by a considerable margin and discourage people from consuming them. People would thus hopefully consume less of junk foods and their complementary products and more of healthier substitutes. Equally intended of fat tax is to serve as a mechanism to internalise the mammoth costs imposed by the junk foods industry on the society through sky-high hospital bills, widespread loss of productivity and the requirement to pump in welfare payments. It needs to be remembered that these costs are financed not only by those affected by lifestyle diseases, but by several other parties such as employers, health care organisations and insurance companies. For instance, the US experience shows that those taxpayers not affected by lifestyle diseases finance almost half of the overweight and obesity related health care costs through governmental programs such as Medicare and Medicaid, which totals to $92.6 billion each year (Finkelstein, et al., 2003). Since privately funded insurance is one of the biggest sources of medical expenses, individual consumption of fat-rich foods turns out to be a public burden on health insurance.

The success of fat tax in altering the food habits of people is dependent on several factors such as quantum of tax getting incorporated into retail prices, how elastic is the demand of targeted products, whether changes in consumption of other products offset or reinforce the direct effect of the tax, whether producers would resort to reinventing their product lines and how closely taxes target actual health concerns. Thus, the indications of a successful fat tax implementation would be as follows:

- Producers incorporate taxes into the retail prices of targeted goods, rather than neutralising them through lower profit margins.

- Consumers become aware of the taxation and consequent price hike, as a result of which, they substantially reduce the consumption of the targeted products.
- People opt to consume healthier and nutritious foods vis-à-vis the taxed junk foods or other edibles posing health risks.
- Businesses resort to invent healthier avatars of their popular food products.

The Western Experience

The affluent western countries where junk foods are virtually staple happen to be the cradle of fat tax. USA, Denmark, France, Mexico, Hungary and Finland are some important examples in this regard. Targeting substances like some variants of sugars, carbonated beverages, saturated fat, salt and caffeine, these nations have tasted success in varying degrees. In Hungary, the measure could reduce the consumption of targeted products to a noticeable extent, and persuade many producers to reinvent products with notorious ingredients below taxable limits (ECSIP Consortium, , 2014). Mexico implemented a far more fruitful law by taxing such processed foods having more than 275 calories per 100 grams. Implementing taxes on sweetened beverages at 9% of average prices, the Mexican government was able to bring down the purchases of sodas by a commendable 10% (Grogger, 2015).

Calling for a direct attack on rising obesity, Japan declared the famous Metabo Law in 2008, which includes conducting an annual waist measurement check of people aged between 40 and 75. The government as per this law seeks to shrink obesity in the country by 25 percent over the next seven years, for which it would go to the extent of penalizing companies and local governments that fail to meet specified targets (Hanson, n.d.).

On the other hand, Denmark drew considerable flak for its incompetent implementation of the fat tax in 2011 (BBC News, 2011). Though the sales of processed foods containing harmful amounts of saturated fats considerably declined, there were widespread complaints regarding the implementation of the new tax regime. Moreover, that the Danish citizens resorted to shopping for calorie-rich edibles from Germany and Sweden rendered the fat tax mechanism in the country nearly ineffective (Christopher, 2013). Summarily, the Danish experience of fat tax offers the lesson that if the design and economic impact of taxation is not genuinely considered, the public would opine that the fiscal intervention is just a gimmick for mopping revenue.

Kerala and Fat Tax

As said earlier, fiscal interventions to combat obesity and such lifestyle ailments caused by high-calorie foods is inevitable not only in affluent countries, but in developing countries too. Hence, being the third most obese country in the world, it's high time that Fat tax be implemented in India's states where the income is comparatively higher and numerous urban centers exist. And Kerala, well known for having achieved living standards comparable to that of Scandinavian countries, surely has a good portion of its population capable of embracing a rampant fast food culture. Various multinational fast food businesses such as KFC, McDonalds, Pizza Hut and Baskin Robbins have already succeeded in running their restaurant chains in the state. No wonder that Kerala is the second most obese state in India, with 28.1% of women and 17.8% of men alarmingly overweight (The Times of India, 2016). Furthermore, the popularity of packed junk foods and sugared beverages fuels the flames of diabetes, cardiovascular ailments and hypertension among the youth (Mercola, 2015).

As a fairly good beginning to curb obesity, the new LDF government launched the fat tax regime in Kerala in July 2016, intending to tax the sale of food articles such as burgers, pizzas, pasta, doughnuts and sandwiches sold at quick delivery chains and other branded restaurants at a rate of 14.5%. Presently there are nearly 60-70 outlets of branded fast-food restaurant chains in Kerala, mostly located in urban centers. And the current move is likely to affect only the upper middle class households, whose demand for branded calorie-rich foods would be quite inelastic to a 14.5% price hike.

The initiation of fat tax in Kerala along the above mentioned lines might be a good start for tackling obesity in the state. But, there is an obvious question as to whether it genuinely addresses the health concerns of the people, or is it simply a gimmick of the LDF government to appear communist and gather some additional revenue for the government treasury. There are quite a few reasons to assume that the latter is what has worked out.

When edibles are taxed in the name of health concern, foods that are unhealthy and rampantly consumed are what need to be targeted. But the Kerala government has clutched only a handful of multinational fast food chains and ignored other local foods that are unreasonably calorie-rich. For instance, the Parotta, which is nearly the national food of Malayalees is an infinitely served item in all restaurants and hotels in the state. By virtue of the excessive amount of oil used in its cooking, and the amount of chemicals such as alloxan and bleaching agents contained in maida flour for imparting softness and colour, the Parotta happens to be a dangerous source of immoderate carbohydrates and fats. Likewise, another unhealthy favourite of Malayalees is the locally produced puffs and bakery products, whose major ingredient is again maida. It's thus quite obvious that a good number of people in the state are getting fatter not because of the 60 odd multinational fast food outlets in the cities, but because of the many conventional edibles produced locally. If such items are covered under the fat tax regime, it would surely make more sense and persuade consumers to opt healthier substitutes. For instance, there's quite much to learn from the Bihar government's decision earlier in 2016 to impose a 13.5% tax on samosas, the most popular snack in the region (The Times of India, 2016). However, the Kerala government's move to effect a 5 per cent tax on packaged wheat products like atta, maida, suji, rava and packaged basmati rice is fairly laudable.

Another minus about the Fat tax in Kerala is not having targeted carbonated beverages. And it's worth mentioning that in January 2016, the World Health Organisation had urged national governments to levy additional taxes on sugar-sweetened beverages as part of its mission to combat obesity globally (Prasad, 2016). However, this drawback would be hopefully resolved if the central government of India decides to execute the GST panel's recommendation of imposing a 40% sin tax on aerated beverages (The Hindu, 2015).

Alongside implementing the Fat Tax, it would be great if measures are taken to incentives healthy food habits among Malayalees, who according to the National Sample Survey of India, figure way down the list when it comes to per capita consumption of fruits and vegetables. Organic farming and production of fiber-rich foods must be promoted, subsidised and incentivized, as investments in such progressive areas can surely neutralise the enormous funding required for the health sector. Similarly, a part of the income emanating from the taxation of foods must be judiciously spent for the research and development of food articles that are nutritious and possibly appealing to the taste buds. Likewise, Kerala is in dire need to wage war against the rampant and unscrupulous adulteration of food ingredients in the state. Most importantly, a government truly concerned about the health of the people should certainly refrain from selling unreasonably calorie-rich foods through public sector enterprises. That said, it is a ludicrous dichotomy that the Kerala government is imposing fat tax on a handful of fast food chains, while delivering a host of unhealthy food items through the Indian Coffee House and the hotels of Kerala Tourism Development Corporation.

Taxation and such external pressures are indeed imperative for reforming the food habits of the populace. However, in a democratic political economy the liberty of citizens to consume what pleases them should not be gainsaid as far as possible. Therefore, creating consciousness such that people develop an attitude embracing salubrious food habits and a wholesome lifestyle is the most foresighted and inevitable measure for securing their well-being. Health consciousness ought to be perceived as a value that needs to be imparted right from childhood. Children must be educated and trained such that worthwhile food habits, regular exercise and love for the nature become part of their personality. A healthy citizenry is the greatest resource of any nation, and a good state should do all what it takes to secure it.

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