



## JOB LOSS SCARE TACTICS: FROM THE INDUSTRY PLAYBOOK

- The South African beverage industry has attempted to highlight the impact of the proposed tax on sugary beverages on jobs as a reason for not pursuing this policy. This is a common strategy across countries when forms of excise or “sin” taxes are proposed. The very same arguments were used against the taxing of alcohol and tobacco.
- Typically, these claims are based on studies undertaken to estimate the economic impact of the tax. The methods used are usually either “input-output/multiplier models”, or “computable general equilibrium models”. Alternatively, econometric statistical studies can be undertaken to estimate the observed effect of policies already in place.
- There are a number of methodological issues to note. The tax will reduce consumption of the drinks. This may have some economic impact in the beverage industry – referred to as the **GROSS** effect. However, consumers will then shift their spending to other products in place of sugary drinks. Once the effect of this substitution is known, one arrives at the **NET** effect. Industry-funded studies will typically stop at estimating the **GROSS** effect, and in doing so **OVERSTATE** the potential effect of a tax.
- General evidence on the sugary drinks tax impact on employment figures is less straight-forward than industry attempts to present. When the substitution of expenditure from the targeted product is taken into account, excise taxes have been shown to increase aggregate employment. This arises because individuals and households, when not spending on goods like sugary beverages, will substitute to other products that in production are labor intensive. This has been demonstrated to be the case for tobacco taxes in South Africa and a number of other settings.[1] It has also been shown to be the case for sugary beverage taxes in other settings.[2]
- BevSA, the Beverage Association of South Africa, commissioned reports from two consultancies, Oxford Economics and Econex, to estimate the potential burden of the tax on the economy.[3, 4] The consultants are financially conflicted and the findings could not be judged to be the result of independent research. The results of their analysis were not subject to any form of academic peer review but were nevertheless used to inform a widespread advocacy and media campaign. Moreover, by virtue of being released in a brief and media-friendly form, these studies/reports have been shielded from another key dimension of robust and credible scientific research – replicability.
- The Oxford Economics report provided highly exaggerated estimates of the impact of the beverage tax, claiming the tax could lead to between 61,000 and 71,000 lost jobs.[4] Oxford Economics were given a brief by BevSA to model the economic impact of the tax using price-elasticities used in a study intended to estimate only the impact of the tax on beverage intake.[5] As such, these price elasticities only track substitution across beverages – and are not appropriate for understanding the impact on the whole economy as the resulting model does not account for individuals shifting their spending on products other than drinks. Thus the reported employment effect is only the gross effect as discussed above.
- The second report produced by the consultancy Econex, adopts a computable general equilibrium modelling approach to estimating the economic impact of the tax.[3] The resulting employment impact it finds is more conservative than that of the Oxford Economics study - but still likely implausible at 27,000 to 31,000 jobs lost.[3] Again, this study only reports the gross effect as it accounts for reduced spending on taxed beverages but does not allow for a shift in spending to substitutes.

### References:

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3. ECONEX, Economy-wide implications of the proposed tax on sugar sweetened beverages (SSBs). 2016.
4. Economics, O., The Economic Impact of Taxation of Sugar Sweetened Beverages in South Africa. 2016.
5. Cabrera Escobar, M.A., et al., Evidence that a tax on sugar sweetened beverages reduces the obesity rate: a meta-analysis. *BMC Public Health*, 2013. 13: p. 1072.