Selection Effects and Heterogeneous Demand Responses to the Berkeley Soda Tax Vote

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Abstract

Early evidence from household-level surveys suggests that the one-cent-per-ounce tax on sugar-sweetened beverages which took effect March 1, 2015 in Berkeley, California decreased consumption of sugar-sweetened beverages dramatically. Even if these findings are robust, the public policy implications of expanding the Berkeley soda tax policy to a national level are complicated by selection effects inherent in the populations of both voters and consumers. We find consumption responses related to the tax interact nontrivially with consumer heterogeneity. Some of these responses directly counter the public policy goals of a soda tax: first, high-consuming households are less price sensitive and therefore less responsive to price changes following a tax; and, second, “reactance” among high-consuming populations led to increases in soda consumption immediately following the passage of the tax, partially mitigating reductions in soda consumption.

Key Words: Behavioral economics, public policy, sugar-sweetened beverage tax, reactance

JEL codes: I18, D12, H00

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