

Sin Taxes: An Economist's Perspective

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Original Sin

- ▶ “Alcohol...has been taxed selectively since colonial days and, Congress – on the recommendation of Treasury Secretary Alexander Hamilton – imposed a tax on whiskey before the ink on the U.S. Constitution was dry.” – William F. Shughart II.

Claimed Benefits of Sin Taxes

- ▶ Decrease Consumption
- ▶ Tax Revenue (benefit?)

Decrease Consumption

- ▶ How much?
- ▶ Relatively Little

Tax Revenue

- ▶ Benefit or a Cost?
- ▶ User Fees

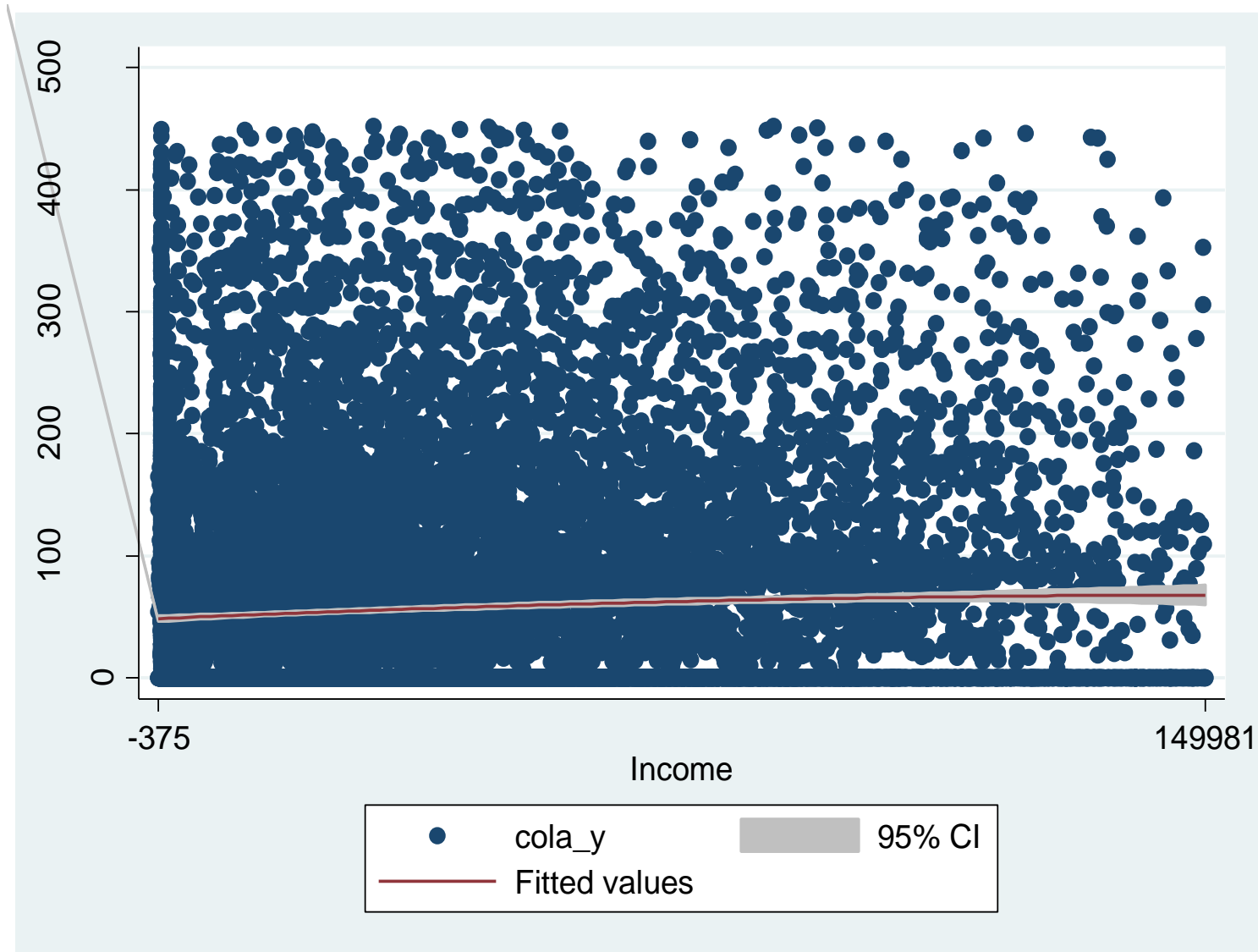
Costs

- ▶ Direct
 - Tax Revenue

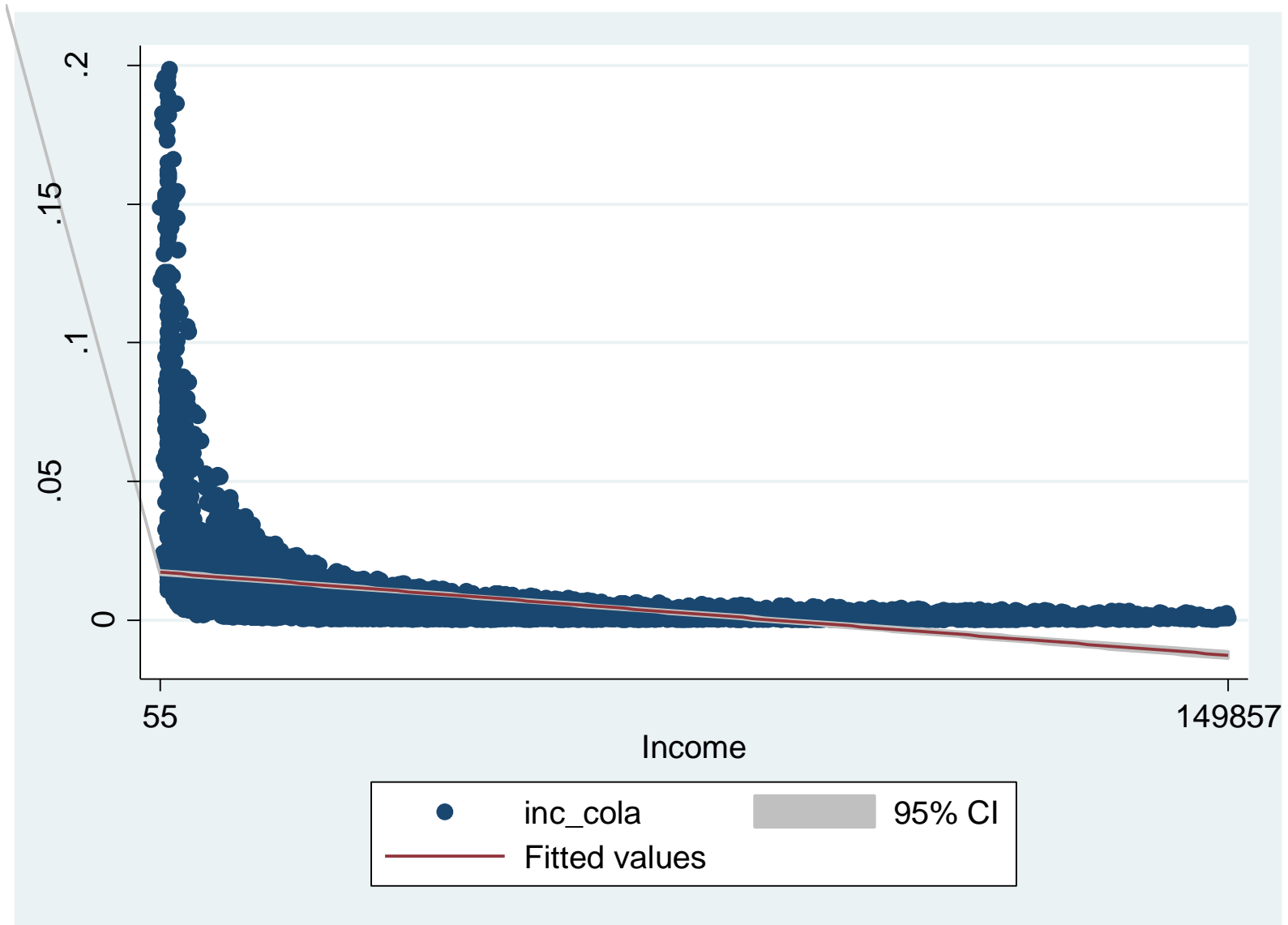
- ▶ Less Clear
 - Disproportionate Impact
 - Unproductive Political Entrepreneurship

Regressive Taxes

Cola Expenditures and Income



Cola As a Percentage of Income



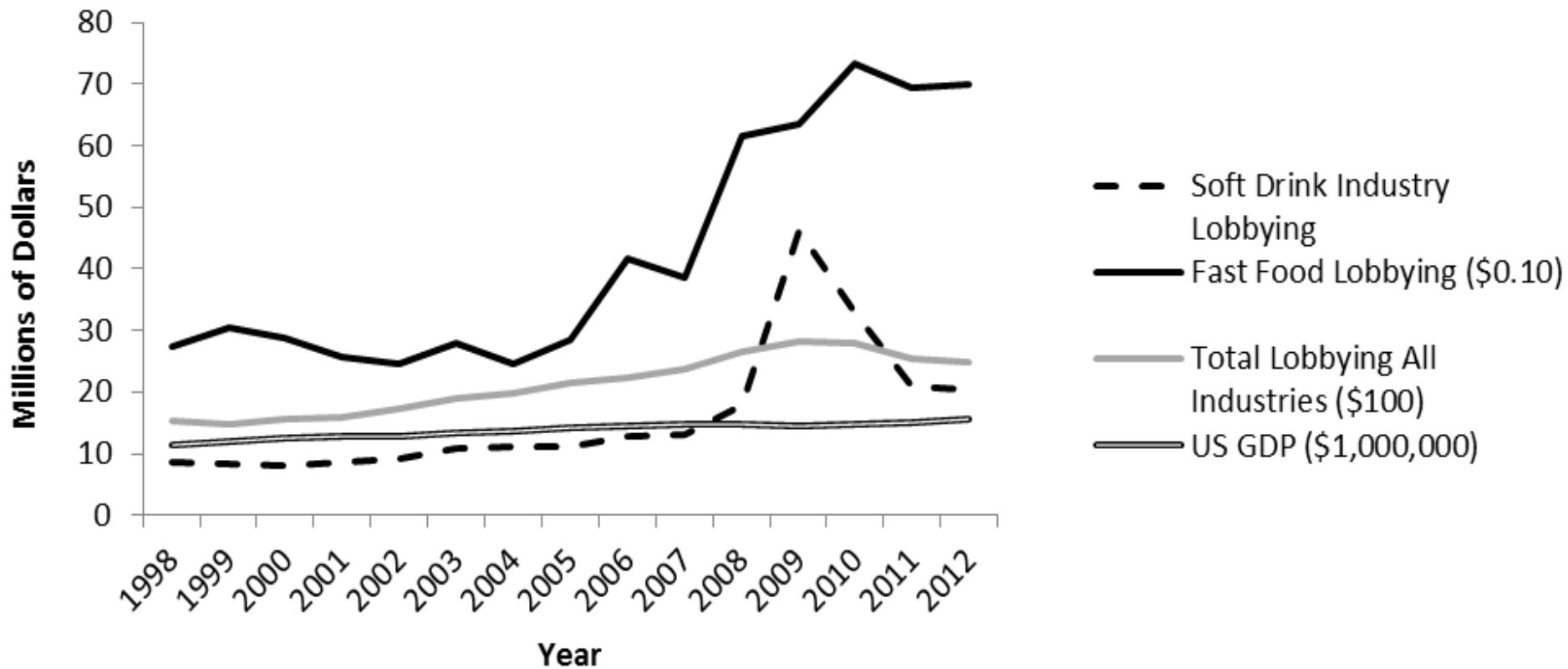
The User Fee Tradeoff

- ▶ Third-party effects via government programs
- ▶ Hypothetical:
 - Mike is poor
 - Mike drinks soda
 - Mike is obese
 - Mike's obesity translates into greater Medicaid expenditures
- ▶ Solution: Tax soda? Tax Mike? Tax the poor?

Rise of the Sindustry

- ▶ Directly Unproductive Profit-Seeking (DUP) Activities
- ▶ Unproductive Political Entrepreneurship

Rise of the Sindustry



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