

Sin Taxes – Government's Immoral Acts in the Name of Morality

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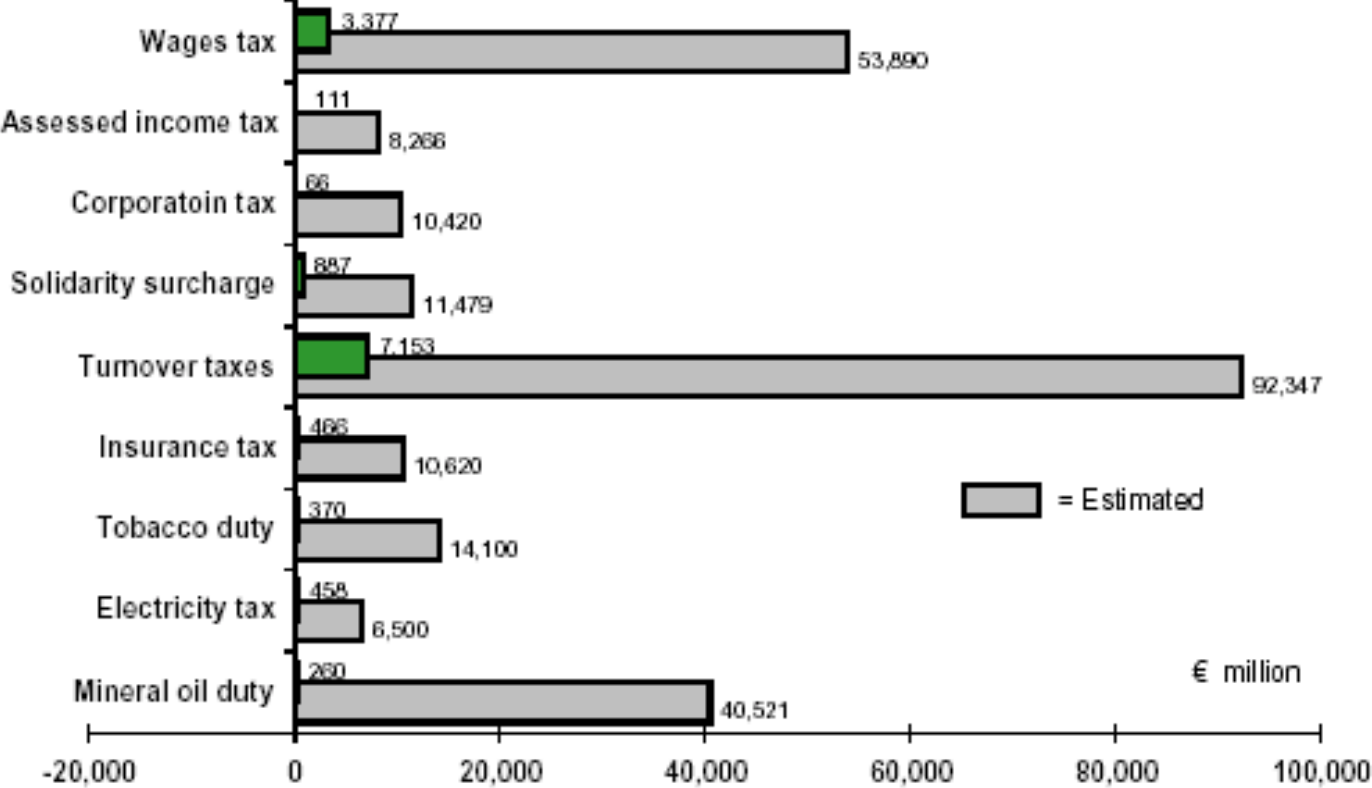
What is a sin tax?

a specific tax on certain
generally socially-proscribed
goods.

Examples

- Tobacco Tax
- Alcohol Tax
- Gambling Tax
- Fuel/Mineral Oil Taxes
- New Proposals: Fat Tax, Soda Tax

**Federal tax revenue (by selected categories)
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Sin Taxes

General Arguments against sin taxes I

- The radical libertarian argument: taxes are not legitimate at all: Taxes are theft.
- The more moderate argument: Taxation has to be neutral: Taxation should not divert the operation of the market from the lines in which it would develop in the absence of any taxation.

General Arguments against sin taxes II

- **The moral argument:** Sin taxes (and other government interventions) discourage and distort moral decisions of the individuals.
- **Logical incompatibility of goals:** The government wants to discourage a certain behavior and raise revenue from it.

Arguments in favor of sin taxes

1. The externalities argument: Sin taxes should protect innocent by-standers from certain actions of others. (social costs)
2. The “internalities” argument: Sin taxes should protect individuals from their own weakness, should favor long-term interests instead of short-term interests

Dealing with externalities – Let the markets work

- Solutions based on
 - private property
 - negotiations and contracts
 - the internalization of costs and risks (example: tobacco – private health insurance)
 - Decision-making on the lowest level possible
- Problem: transaction costs

Dealing with internalities

- Again:
 - Internalize risks
 - Private Property
- Nozick's solution: Competition of regulation systems, of "Utopias"
- Individual opportunities:
 - Self restrictions,
 - medical (psychological) help,
 - "Enlightenment"

Further Reading:

- *Glen Whitman: Against the new Paternalism: Internalities and the Economics of Self-Control*, Cato Institute, Policy Analysis 563, February 22, 2006
- *Robert A. Sirico: The Sin Tax: Economic and Moral Considerations*, Acton Institute, Occasional Paper, 1995