Sin Taxes Go Global

By Chuck Dinerstein, MD, MBA — April 24, 2018

The current four Horsemen of the Health Apocalypse include heart disease, diabetes, respiratory disease, and cancer – noncommunicable diseases. They spread, not by infection, but by, in the words of the World Health Organization (WHO), tobacco use, harmful alcohol consumption, poor diet and insufficient physical activity. As WHO makes plain, three of those involve consumption or products that are or can be regulated in the marketplace. Sin taxes are becoming as global as the companies that produce these products.

Are they right?

Whether they are or not, the lure of money on the front end and lowering costs on the back is too alluring for government to resist. Sin taxes on smoking, alcohol and soda are increasingly utilized to nudge the purchases and behavior of populations globally.

Yet not everyone agrees it is helpful. It may be instead regressive. One of the economic arguments made against imposing these taxes is that they hurt the poor more than the wealthy – economically they are regressive taxes and increase income disparity. As part of a year-long series on noncommunicable diseases, an article in [2] Lancet [2] discusses the impact of globalizing sin taxes.

- Cigarettes are more of a rich man’s sin. Larger expenditures for tobacco products are found in wealthy rather than poor households.
- Alcohol seems to be more of sin by wealth and gender. Harmful drinking [1] is more often found among wealthy women and poor men than other groups.
- Soft drinks and snacks are acting as the markers of poor diet choices and again are
consumed more by wealthy rather than poor households.

It is no shock to students of Adam Smith that taxation increases the price of these products and often reduces their consumption, based on how much people can afford to spend - economically price elasticity.

It stands to reason that poorer households cannot afford too much of an increase and will substitute some other product more readily than wealthy households. That is both the promise and the problem with sin taxes; yes, people may substitute other products, but there is no guarantee that these substitutions will be healthier. If a soda is near in price to a Starbucks frappuccino, people may go to Starbucks, government just handed them a huge subsidy by penalizing their competitors, but some may go to cheap alcohol.

While the paper dances around the real meaning, pointing out that for some sins it impacts the wealthy more than the poor, they must finally conclude “...when considering only households that consume these product categories, the burden tends to be highest in groups with the lowest socioeconomic status.”

Yes, sin taxes are regressive

How can a tax designed to help, make things worse?

The authors say it is not worse, it is better, as does an accompanying editorial by former Harvard president Lawrence Summers, these “adverse equity effects might be outweighed, in many cases, by the expectation of health gains and by a number of pro-poor effects.”

In other words, if we are all paying for the health care of the poor, we get to tell them what to eat and drink. And he rationalizes that the diseases are regressive - impacting poorer households more than the wealthy. His belief that a regressive tax fixes that is unconvincing, he just continues insisting that the poor will benefit from not being able to buy things they like the way richer people still can, and the “progressive” uses of new revenues on the backs of the poor will be better spend funding healthcare, smoking and alcohol cessation programs, and to improve diet.

Sin taxes don’t reduce healthcare costs

But, and this is the important but, sin taxes have not been shown to reduce healthcare problems or their costs, and high sin taxes on cigarettes and alcohol have been around a long time.

We have been given reviews that use computational models, but no actual population-based studies. Until we have evidence to demonstrate a beneficial health outcome, sin taxes are regressive, hurting the poor financially, but come with a promise that they will be better off later on. Personally, I would like a little more evidence of their benefit before jumping on the bandwagon. As an article in Bloomberg News [3] put it
“As sin taxes continue to grow in popularity and evolve, it is not outside the realm of possibility that states will move away from the behavior deterrent aspect of these taxes and focus solely on their revenue generating potential.”

NOTE:

[1] Binge drinking is the most common form of excess drinking defined as 4 or more drinks for women and 5 or more for men on a single occasion. Heavy drinking is 8 or more drinks a week for the ladies and 15 or more for the men.