Sin taxes in modern economic terms amount to excise, or per unit, taxes that are chiefly designed to reduce specific behaviors thought to be harmful to society.¹ Sin taxes have played roles of varying importance throughout U.S. tax history. The ever-expanding list of taxable “sins” proposed by governments includes cigarettes, alcoholic beverages, gasoline, bullets, and, more recently, sugary soft drinks and fatty snacks.

In 1790, Alexander Hamilton proposed the first excise tax on whiskey to refund Revolutionary War debts, following Adam Smith’s direction in the Wealth of Nations.² Made immortal by the rebellion it spawned, Hamilton’s whiskey tax was subsequently rescinded, but selective excise taxes have hardly disappeared. History reveals that federal excise taxes have been predominantly enacted as wartime emergency measures, and the majority of the taxes were customarily repealed when hostilities ended. Recently, however, the arguments for imposing new excise taxes and increasing existing ones have reemerged across party lines and have spawned several myths about the efficacy of sin taxation.³

MYTH 1: SIN TAXES DISCOURAGE UNHEALTHY BEHAVIORS

State and local governments are increasingly imposing sin taxes as political activists try to force Americans to adopt their own version of “clean living.”⁴ These taxes are designed to raise prices so that “sinful” goods become so expensive that consumers will give them up for something healthier. However, this rarely happens.

Research has shown that when the price of a “sinful” good increases, consumers often substitute an equally “bad”
good in its place. For example, two studies found that teen marijuana consumption increased when states raised beer taxes or increased the minimum drinking age. Another study found that smokers in high-tax states are more likely to smoke cigarettes that are longer and higher in tar and nicotine than smokers in low-tax states. Specifically, they discovered that young adults aged 18–24 are much more responsive to tax changes than older smokers. For young smokers, the switch to cigarettes with higher tar and nicotine is so large that tax hikes actually increase average daily tar and nicotine consumption.5

The federal government has also attempted to impose “hefty” taxes on sugared sodas and sports drinks to reduce obesity in the United States.6 The assumption is that this sin tax would be used to finance projects like federal health insurance. The federal government has also attempted to impose “hefty” taxes on sugared sodas and sports drinks to reduce obesity in the United States.7 This appears to be most true for cigarette taxes as many continue to purchase cigarettes at the higher taxed prices.8 Recent antismoking initiatives at the federal, state, and local levels have gained unprecedented popular support, probably because of their ability to raise revenue. For instance, President Obama recently signed a law that increased federal tobacco excise taxes on a pack of cigarettes from $0.39 per pack to $1.01.9 However, as we shall see, the revenue raised is hardly ever used for its proposed purpose.

Furthermore, if the object is to raise the most revenue, economists generally prefer broad-based taxes to narrow-based “sin” taxes on efficiency grounds. In other words, economists have generally argued that the welfare loss resulting from excise taxation is significant enough to justify “spreading” taxes across many commodities.10

To help solve the obesity problem, some localities have already begun to impose “hefty” taxes on sugared sodas and sports drinks to reduce obesity in the United States.7 This appears to be most true for cigarette taxes as many continue to purchase cigarettes at the higher taxed prices.8 Recent antismoking initiatives at the federal, state, and local levels have gained unprecedented popular support, probably because of their ability to raise revenue. For instance, President Obama recently signed a law that increased federal tobacco excise taxes on a pack of cigarettes from $0.39 per pack to $1.01.9 However, as we shall see, the revenue raised is hardly ever used for its proposed purpose.

### Table 1: Calories per Cup of Popular Drinks

<table>
<thead>
<tr>
<th>Drink</th>
<th>Calories per Cup</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gatorade</td>
<td>63&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>97&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Orange juice</td>
<td>105&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Apple juice (unsweetened)</td>
<td>117&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>2% milk</td>
<td>120&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Homemade cocoa with skim milk</td>
<td>135&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Sweetened lemonade</td>
<td>131&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Whole chocolate milk (4%)</td>
<td>208&lt;sup&gt;4&lt;/sup&gt;</td>
</tr>
<tr>
<td>Red wine</td>
<td>200&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
</tbody>
</table>


### Myth 2: Sin Taxes Are a Good Way to Raise Revenue

Although the underlying rationale for sin taxes is to discourage consumption of “sinful” products, it is often argued that the tax would also help raise revenue that would, in turn, be used to finance projects like federal health insurance. The problem with this argument is that these regulatory and revenue-raising justifications work at cross-purposes. If the tax is actually effective at discouraging consumption of a “sinful” good, after all, then there would be very little revenue raised because people would purchase much less of the more expensive good in question.

One example of rent seeking is the 1987 lobbying effort by a coalition of nonprofit organizations to more than triple California’s cigarette tax from 10 to 35 cents a pack.12 The tax was expected to raise over $500 million annually, much of which would ostensibly go to these very organizations for research, indigent medical care, and antismoking “education” campaigns. This obviously represents a huge conflict of interest for the nonprofit organizations: Are their lobbying efforts directed at the cause they fight or merely at raising funds for their organizations? When tax receipts first became available, the president of one of these nonprofits, the California Medical Association, actually admitted to legislators that his organization and the health charities were “fighting for this money like jackals over a carcass.”13

Nonprofits fighting for a particular cause also have to fear competition from the government. Often, they end up hav-
Their program offers discounts up to 20 percent on life insurance policies to customers whose BMI is verified by a doctor to be between 19 to 25. In fact, most insurance companies already provide a discount for customers who do not smoke or drink. Private market programs and products like these that encourage and reward healthy lifestyles instead of punishing personal choices are more efficient solutions to curbing obesity than sin taxes on unhealthy products.

CONCLUSION
So-called sin taxes, even those passed with the best of intentions, have undesirable consequences because they contradict basic principles of economics, finance and, most importantly, free choice.
ENDNOTES


2. Gary M. Anderson, "Bureaucratic Incentives and the Transition from Taxes to Prohibition," in William F. Shughart II, ed., Taxing Choice. 139–161. There were, of course, numerous inconsistencies in Smith’s discussion of the revenue-maximization objectives of government, despite the extensive application of his ideas to promote the revenue-generating power of taxes on “sin” even today. See Kelly D. Brownell and Thomas R. Frieden, "Ounces of Prevention—The Public Policy Case for Taxes on Sugared Beverages," http://www.yaleruddcenter.org/resources/upload/docs/what/industry/SodaTaxNEIMApr09.pdf/.


8. Evans and Farrelly, "The compensating behavior of smokers: taxes, tar and nicotine."


12. The coalition consisted of the American Cancer Society (ACS), American Lung Association (ALA), American Heart Association (AHA), and California Medical Association (CMA).


15. Ibid.


17. Randall Lutter, et al., "The Cost-Per-Life-Saved Cutoff for Safety-Enhanc-