

## PREFACE

In this book we have compiled essays that collectively scrutinize selective taxation through the lens of institutional economics and public choice theory—or, as some have referenced it, the economics of interest-group politics. The focus of this book is threefold. We first describe why taxes of various types and on specific commodities are enacted in the institutional structure of our government. We then consider how those policies impact outcomes, devoting specific attention to the undesirable secondary and unintended effects of such policies. Finally, we return our attention to the institutional rules and how they can be better formed to improve policy outcomes.

For instance, broadening the list of items subject to sin taxation and escalating existing sin taxes have become commonplace. The definition of a sin good is no longer limited to alcohol, tobacco, and gambling. Policymakers now use selective taxation to discourage innumerable consumer purchases, including selected foods and drinks, entertainment, automobiles, clothing, and the bags used to carry home our purchases. Further, many sin taxes have grown far beyond modest inconveniences: total federal, state, and local taxes paid on a pack of cigarettes are now \$7.17 and \$6.86 in Chicago and New York City, respectively.<sup>1</sup> This is more than the after-tax price of a pack of cigarettes in much of the country.

To question whether the government should be involved in discouraging the consumption of sin goods is a worthwhile endeavor, and one that we partially pursue in this book. However, even supposing that consumption modification is an acceptable role for government, the ineffectiveness of taxation to discourage consumption (not just the legal purchase) of sin goods and the resulting list of undesirable secondary outcomes suggest that alternative public policy may be more appropriate. We document these outcomes and offer policy guidelines that can produce better results.

The approach and broad subject of this book is not new. The public choice analysis of selective taxation was undertaken in the 1997 volume edited by William F. Shughart II, *Taxing Choice: The Predatory Politics of Fiscal Discrimination* (hereafter, *Taxing Choice*). Indeed, *Taxing Choice* greatly influenced the research interests of both editors of this book and served as inspiration for compiling the present volume.

Todd Nesbit read *Taxing Choice* as an undergraduate student; it was through that reading that he first began to understand how seemingly simple excise taxes could invoke complex and unintended consequences. Largely inspired by

the arguments presented in *Taxing Choice* related to the nanny state, the historical evolution of excise tax policy, earmarking, prohibition, social costs of taxation, and rent-seeking, Nesbit wrote his dissertation in 2005, titled “Essays on the Secondary Impacts of Excise Taxation: Quality Substitution, Tax Earmarking, and Cross-Border Effects.” He has since published numerous peer-reviewed articles related to selective taxation, specifically on the topics of tax-induced cross-border shopping, quality substitution, and illicit behavior.

Adam J. Hoffer read *Taxing Choice* as a graduate student. In his public economics courses, he found that most of the empirical research on public policy was single directional. A policy would be enacted, and researchers would flock to study the policy’s effects. *Taxing Choice* was a rare example of research that investigated public policy from the other direction—putting policy outcomes on the left-hand side of the regression equation, so to speak. *Taxing Choice* asked whether we could explain and predict the observed policy outcomes using standard economic techniques. The basic answer was yes, we could. Politicians are individuals who respond to incentives and follow their own self-interests in the same way we expect everyone else to behave. Hoffer followed this logic in his 2012 dissertation, “Three Essays on the Political Economy of Public Finance.” He continues to write and publish peer-reviewed research following the examples put forth in *Taxing Choice*.

While the basic techniques of interest-group politics involving selective taxation have largely remained unchanged—rent-seeking, coalition-building, earmarking, and the like—in the 20 years since the publication of *Taxing Choice*, political entrepreneurs have continued to expand the application of such tools in terms of both the number of items subject to tax and the magnitude of the taxes imposed. Inflation-adjusted state and local government revenue from selective taxation from fiscal years 1997 to 2014, the most recent fiscal year for which data are available at the time of this writing, has increased by 105 percent.<sup>2</sup> Reliance on nontraditional excise taxes—selective taxes on items other than motor fuel, alcoholic beverages, tobacco products, and public utilities—has particularly accelerated, with such revenues increasing by nearly 178 percent (inflation adjusted).<sup>3</sup> This indicates a growing and increasingly intrusive government fulfilling its revenue requirement partially through selective taxes on politically disfavored consumption that is justified on the basis of being for our own good. This trend is, to say the least, of concern and warrants additional thoughtful consideration.

The arguments presented in *Taxing Choice* remain relevant today, and those arguments set the stage for the present volume. In fact, we started with the table of contents from *Taxing Choice* when first sketching the preliminary outline of

this book to determine which discussions require a fresh look due to substantial policy changes over the past 20 years and which topics are more deserving of consideration today that were marginal issues in 1997. Our list of contributors includes five authors from *Taxing Choice*, including that book's editor, William F. Shughart II. We believe that our organization of the topics covered and the mix of contributing authors uphold the intellectual contribution of *Taxing Choice* and further advance the discussion of appropriate tax policy.

We thank the publications team at the Mercatus Center not only for supporting this project but also for providing guidance throughout the publication process. We are truly grateful for their assistance. We also thank each of our contributing authors who, despite each being engaged in an already overwhelming research agenda, made the time to contribute valuable essays to this project and to hold to our submission and revision deadlines.

Last, and most importantly, we thank our wives, Chelsea (Adam) and Julie (Todd). This book was a rewarding project that developed at an immensely busy time for both of us. We each welcomed a new child to our respective families during this multiyear project. Our wives deserve much credit for taking on increased responsibilities with our young children and dealing with the added stress during times when this project required additional attention in the evenings and on weekends.

## NOTES

1. Campaign for Tobacco Free Kids, <https://www.tobaccofreekids.org/research/factsheets/pdf/0267.pdf>.
2. US Census Bureau, Annual Surveys of State and Local Government Finances, 1997 and 2014, [https://www.census.gov/govs/local/historical\\_data.html](https://www.census.gov/govs/local/historical_data.html).
3. Ibid.

