Of Sin Taxes, Substitute Goods, and Libertarian Paternalism

Published on Show-Me Institute (https://showmeinstitute.org)

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In a Reason article, "Have a Coke and a Tax: The economic case against soda taxes," Veronique de Rugy of the Mercatus Center at George Mason University explains that selective sin taxes are ineffectual because consumers tend to substitute one bad habit with another. De Rugy explains that soda taxes will be unsuccessful at slimming American waistlines because consumers are likely to switch to beverages that are higher in calories.

The trouble is that sin taxers don't appreciate human creativity: Consumers have a knack for replacing one sin with another. When the price of a “sinful” good increases, people often substitute an equally “bad” good in its place.

As I have blogged about previously, selective taxes on sinful goods are an application of libertarian paternalism. I'm skeptical of plans to implement "nudges" à la Sunstein and Thaler for two main reasons.

First, they assume that the government/"choice architect" actually knows what the "right" choice is for other individuals. The answer to the question "What is healthy?" is a subjective one; it depends on who you ask and when. It also depends on who holds political office and which business interests have his ear.

Second, the government/"choice architect" could restrict free choice by artificially raising
the cost of "bad" choices too much. I agree with David Friedman's deducement that nudges can all-too-easily turn into compulsions. When the government has the authority to micromanage the eating habits and desired weights of its citizens, the individual isn't free to choose how to eat as she desires.

Instead of nudging people into eating habits that are considered to be healthy at the time, choice architects should focus their efforts on improving the quality and availability of information to consumers, who can decide for themselves.

If America were serious about reducing the caloric intake of its citizens, then officials would eliminate the subsidies that it pays to corn producers rather than instituting sin taxes, because that would be more efficacious. Then food products that are made from corn would be relatively more expensive, and the quantity demanded would decrease. It's a different means to the same end.

American should also stop pretending that such selective taxes (such as those on fatty food, cosmetic surgery, or indoor tanning ) are actually implemented in order to improve public health — their real purpose is to raise enough tax revenue to support the government's spending habit.

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