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The Wages of Sin Taxes: The True Cost of Taxing Alcohol, Tobacco and Other "Vices" [1]

Written by **Blog Editor** [2] | Tuesday 15 May 2012

- ?Sin taxes? on cigarettes and alcohol are designed to boost revenue, not improve public health
- Minimum alcohol pricing will exacerbate poverty and entrench inequality without discouraging binge drinking
- Most of the costs of drinking and smoking fall on individual consumers, not the public. There is no economic justification for increasing taxes on smokers and drinkers.

In a report released today, *The Wages of Sin Taxes* (Download PDF) [3] by Christopher Snowdon, the Adam Smith Institute condemns the government?s decision to increase taxes on cigarettes and alcohol this year and to introduce minimum alcohol pricing.

The report argues that ?sin taxes? (taxes on commodities seen as harmful to health) are ineffective in reducing consumption and are not necessary for recouping lost revenue. The taxes are highly regressive and force the poor to pay for the government?s mishandling of public finances.

The taxes don?t work

Cigarette taxes are now so high that increases drive smokers to the black market instead of discouraging consumption or raising more revenue. Sin taxes are more likely to deter moderate users than heavy users, whose demand for cigarettes and alcohol is relatively inelastic.

A heavy smoker or an alcoholic is unlikely to reduce consumption because of a price rise, making sin taxes an unreliable way of reducing consumption or improving public health.

The victims of cigarette and alcohol duty

Sin taxes hit moderate and heavy users alike. Research has shown that previous rises in cigarette tax have made only 2.3% of smokers quit, with the other 97.7% just paying more in tax.

Taxes on cigarettes and alcohol are regressive and hit the poor hardest. The average smoker spends £1660 a year on cigarettes ? 20% of the bottom 10%?s income. Sin taxes are the most regressive indirect taxes, as they tend to target products that are disproportionately consumed by the poor.

Minimum alcohol pricing is also deeply regressive, only affecting the cheaper drinks consumed by the

poor. Punishing poor people for enjoying a drink or a cigarette exacerbates poverty and treats the poor like children who need to be controlled by the state.

The public cost of smoking and drinking

Taxes on cigarettes and alcohol have often been justified by studies that claim to estimate the ?social cost? of these vices. These studies include intangible costs borne by individual consumers, such as ?emotional distress?, lost years of life, and individual expenditures on cigarettes and alcohol. These are personal costs, not social costs. They also fail to include the economic benefits the alcohol and cigarette industry gives to the UK in terms of employment and government revenue. Most of these studies should be relegated to the bin of junk statistics.

In fact, smokers and heavy drinkers do not cost the state more. Though smokers may cost more during their working lives, but non-smokers require greater expenditure in pensions, nursing care and welfare payments. Chronic diseases associated with old age are far more expensive than the lethal diseases associated with smoking and alcoholism. Smokers and drinkers are not a burden on the state, and the myth of saints subsidising sinners should not be used to justify tax rises.

The appeal of ?sin taxes?

Despite the fact they hurt the poor and do not change consumer consumption, sin taxes have always been popular with governments as a source of revenue.

Sin taxes and minimum alcohol pricing should be recognised for what they really are - stealth taxes and paternalism designed to control the poor.

Chris Snowdon, author of the report and Adam Smith Institute fellow, says:

?Campaigners for sin taxes and minimum pricing often claim that ?healthy citizens? are forced to bear the cost of other people?s lifestyles. In fact, the evidence shows that smokers take less from the communal pot than the average Briton and the money raised from alcohol duty comfortably pays for any burden drinking places on public services. If the aim of policy is to make individuals pay their way, the government should slash the beer tax and subsidise cigarettes. We are not seriously suggesting the government does this, but if politicians insist on increasing taxes on these products, they should admit that the purpose is to raise revenue. Essentially the government is forcing the people who are least likely to live to extreme old age to pay for the escalating costs of an ageing population.

?As we show in the report, amongst EU countries there is no relationship between alcohol prices and alcohol related harm, nor is there an association between cigarette prices and smoking rates. The only significant effects that sin taxes have are to make the poor poorer and black marketeers richer.?

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