



A paternalistic justification for excise taxes on tobacco, alcohol and sugar

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Abstract

This paper evaluates the Task Force on Fiscal Policy for Health's proposal to implement high excise taxes on tobacco, alcohol and sugar. It argues that the Task Force's proposed justification of preventing negative externalities due to the consumption of these goods is inadequate, but that the policy can be justified on soft paternalistic grounds. Moreover, it argues that excise taxes should be combined with policies which do not rely on price in order to positively affect the consumption habits of price-insensitive individuals.

Keywords: Paternalism; Taxes; Tobacco; Sugar; Alcohol

A central policy aim of the United Nations' 2015 Sustainable Development Goals (SDGs) is reducing mortality from Non-communicable Diseases (NCDs). The Task Force on Fiscal Policy for Health has advised governments to implement large excise taxes (taxes on goods levied at the moment of manufacture) on the leading causes of NCDs (tobacco, alcohol and sugar), or to increase these taxes if already in place, in order to curb consumption. In this essay I evaluate this recommendation by first outlining the Task Force's suggestions and motivations and then examining three different lines of criticism. One critique focusses on the lack of empirical evidence to back the negative externality justification for the proposed policy, another on the policy's implications for individual autonomy as a paternalistic measure, and the last centres on its distributional impact. My conclusion is that the Task Force's recommendation is an acceptable policy as I deem the form of paternalism engaged in to be permissible. However, I argue that the excise taxes proposed should be complemented with other policies to ensure that less price sensitive consumers are positively affected too, and that more evidence regarding negative third-party effects must be presented to make the proposal more compelling.

In their report, the Task Force begins by identifying tobacco, alcohol and obesity, which is linked to the consumption of highly processed foods and sugary beverages, as the main causes of over 40 million deaths per year due to NCDs. These, they claim, impose "enormous costs on society" (Task Force 2019: 5). Furthermore, consumption of tobacco, alcohol and sugar entails "negative externalities" (Task Force 2019: 17). The Task Force thus justifies efforts to modify consumers' behaviour and curb consumption of these three products by appealing to: the generally accepted moral principle that individual freedom can

be limited to prevent harm to third parties and the corresponding economic rule that negative externalities should be corrected to ensure the optimal working of the free market. Having laid out and motivated the need to reduce consumption of tobacco, alcohol and sugar, the Task Force then provides evidence of the efficacy of measures affecting price in reducing consumption. Finally, they argue that from the range of price-affecting policies levying excise taxes is the most cost-effective policy (WHO 2017), where cost-effectiveness is measured in terms of cost per healthy life-year gained. Indeed, they argue for large specific excise taxes (based on quantity sold) since these reduce the relative price gaps between product tiers and so reduce the incentive to trade down (Task Force 2019: 12).

One of the most notable aspects of the Task Force's proposal and supporting arguments is the absence of any reference to paternalism. Instead the authors appeal to the prevention of harms to others, a principle which is much more politically palatable. In doing so, however, they make their reasoning vulnerable to two criticisms. Firstly, if the harm we are trying to prevent is a direct consequence of the action, for example second-hand smoke, maternal smoking, drinking and obesity during pregnancy (Task Force 2019: 17), why should we implement a policy like excise taxes that also reduces consumption in cases in which no direct harm is caused? It would seem more reasonable to simply ban consumption when it causes direct harms to others, as is already done in many countries with smoking in public areas. One could argue that enforcing such policies in the private sphere is more difficult than implementing taxes which have a universal reach, including homes, and thus excise taxes can be justified in terms of prevention of direct harm. Nevertheless, difficulty in enforcement hardly justifies adopting a strategy that impacts so many outside the target group (those causing direct harm). If it were hard to identify speeders, surely we would not increase taxes on sports cars but rather take measures to better detect offenders.

I believe the Task Force is aware of the problems associated with using the prevention of direct harm as a justification for its policy. Indeed it predominantly focuses on *indirect harm*, which is a by-product rather than a direct consequence of the action, such as fiscal effects (e.g. non-consumers in countries with public health systems bearing part of the costs for treating illnesses due to consumption of tobacco, alcohol and sugar). However, the relevance of these harms can be subject to a second criticism of a more empirical nature. As Voorhoeve (2013) points out, one must be careful to consider not only cross-sectional fiscal effects, fiscal effects at a specific point in time, but also total lifetime effects. The Task Force focuses on the negative effect of tobacco, alcohol and sugar consumption on the former, which is supported by a significant amount of empirical evidence (Wang et al. 2011; Lehnert et al. 2013; Dall et al. 2007). It is an established fact that consumption of these substances causes various health problems. It is therefore obvious that, at any specific point in time, health expenditure for consumers will be higher than for non-consumers. By contrast, evidence about lifetime fiscal effects is lacking due to the complexity of calculating these. In one study, Van Baal et al. (2008) show that lifetime health spending was higher for healthy people than for the obese. Whilst this single study is not enough to conclude that tobacco, alcohol and sugar consumption does not have negative lifetime fiscal effects, the Task Force should present evidence in support of the claim that it does. Overall, I believe these two criticisms significantly weaken the strength of the Task Force's arguments. Unless further hard evidence is presented showing indirect fiscal effects to be negative, a different approach must be taken to justify the proposed excise taxes.

In light of the failure of the harms-to-others approach in justifying the Task Force's proposal, I suggest that instead of justifying the policy *in spite* of its paternalistic nature, an approach which validates it *because* of this nature should be adopted. A key criticism that can be levied against high excise taxes on tobacco, alcohol and sugar is grounded in the fact that these measures impose limits on the free choices of individuals for their own good without

their consent. In other words, they are paternalistic. When evaluating these critiques it is important to note the distinction between hard and soft paternalism. Policies are a case of hard paternalism when they limit the choices of individuals who are in possession of sufficient information and capable of thinking and deciding rationally. Such policies are justifiable only in terms of the purported benefits to the people whom they constrain. Policies are softly paternalistic if the individuals they constrain for their own good are either insufficiently informed or incapable of rational decision making (Dworkin 2007). Hard paternalism is objectively difficult to justify given its impact on the autonomy and sovereignty of individuals, as well as the fallibility of the paternalist who very well may not have the paternalised party's benefit at heart or simply may have evaluated it incorrectly. I believe soft paternalism is a more acceptable principle, as it essentially consists of preventing individuals from making decisions which they, upon obtaining sufficient information or regaining their rational capacities, would be likely to regret. Soft paternalism is consistent with recognizing the personal sovereignty of a well-informed, rational individual (Feinberg 1986).

Are the excise taxes proposed by the Task Force a hard paternalistic measure, therefore unjustifiable, or an acceptable soft paternalistic measure? In other words, are the majority of the people affected acting rationally and with adequate information? Rabin (2013: 122) identifies three common irrational behaviours which increase the likelihood of the formation of bad habits. The first is addictive behaviour: when one engages in an activity today it increases the marginal utility of the activity and lowers the utility level of engaging in the activity tomorrow (such as the consumption of tobacco, excessive alcohol and sugar¹). Second is projection bias: a tendency to project current tastes into the future even when we know they will change. Third is present bias in which an individual "gives extra weight to well-being now over any future moment, but discounts all future moments by the same discount factor". An individual may also be naive, not recognizing their own susceptibility to present bias.

These biases seem likely to play a role in the decision making process of most people and a large amount of empirical evidence suggest the existence of other apparently irrational behaviours when choosing (Sunstein and Thaler 2006: 238). This leads me to conclude that for a majority of individuals the excise taxes would indeed be a soft paternalistic, and therefore acceptable, measure. Taxes would be effective in counteracting these irrational behaviours. By increasing the cost of engaging in consumption, taxes would 'correct' the irrational underestimation of this cost by consumers due to the addictive nature of tobacco, sugar and alcohol and the biases described by Rabin. But what about those who effectively are choosing rationally and informedly? In this case they are not suffering a hard paternalistic, unacceptable policy, but rather their choices are constrained for others' wellbeing. I believe this is a necessary sacrifice because other policies that would not affect them, such as information campaigns or self-binding facilitation, have either been proven to be less cost-effective² or are difficult to apply in this context.

Another criticism of policies such as those advocated by the Task Force is their economically regressive nature due to the higher impact they have on lower-income groups who tend to display higher price sensitivity. Nevertheless, this critique is grounded in the idea that being under greater influence of a paternalistic measure is a negative thing. This can therefore be refuted in light of the justification of the paternalistic nature of the excise taxes: once it is accepted that a paternalistically induced change in behaviour is beneficial

¹ There is scientific consensus around the addictive nature of nicotine and alcohol (National Institute on Drug Abuse, 2018; National Institute on Alcohol Abuse and Alcoholism, 2019). Sugar addiction is more controversial, but there is a vast amount of animal evidence and substantial human evidence which compares its effects to those, for example, of nicotine (Wiss et al., 2018).

² Information campaigns are as cost-effective as taxes for tobacco, but less for alcohol and sugar (WHO, 2017).

for individuals in this context, more price sensitive, lower-income individuals are in effect benefiting more than others from the policy rather than being negatively affected. This conclusion leads however to a different and more powerful distributional critique: less price sensitive individuals who continue to purchase the products despite higher prices do not enjoy the positive effect of the policy, namely the reduction in harmful consumption, and are left with a lower budget for consumption of other products. In order to ameliorate this differential distributional impact, other cost-effective policies to reduce consumption of tobacco, alcohol and sugar that do not rely on prices and therefore also benefit price insensitive consumers, such as limiting advertising (WHO 2017), should be implemented.

In conclusion, imposing high excise taxes on tobacco, alcohol and sugar in order to reduce their consumption, as suggested by the Task Force, is an acceptable measure that should be enacted due to its soft paternalistic nature and the fact that it is more cost-effective and easier to implement than other solutions (WHO 2017). However, additional policies that do not rely on price to reduce consumption should also be considered in order to decrease the negative impact excise taxes would have on price insensitive consumers. Moreover, clearer evidence of the negative indirect fiscal effects of the consumption of these products should be presented in order to strengthen the argument for this policy.

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