



CASCADE POLICY INSTITUTE

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## Summary

The proposal to raise revenue through higher beer, wine and tobacco taxes in Oregon could have the opposite effect due to increased bootlegging. More importantly, it is immoral to fund government services by targeting politically unpopular minorities for their lawful behavior.

**Word count: 587**

***“The imposition of any sin tax violates the rights of people who are peacefully engaging in lawful behavior.”***

## Repent from sin taxes

*By John A. Charles*

Governor Kitzhaber wants the state legislature to raise taxes on cigarettes in order to balance the state budget. Legislators are already addicted to gambling, alcohol and tobacco revenue; approving a cigarette tax increase will simply make them co-dependent with the Governor's dysfunctional behavior. It's time to go cold turkey and stop relying on vice as a virtue.

Sin taxes create an obvious moral hazard for lawmakers. While they profess to be concerned about public health, they actually need people to buy tobacco and alcohol in order to prop up the budget.

Proponents argue that such taxes are justified because revenues can be dedicated to programs that mitigate the alleged social harm caused by various addictions, but sin tax money rarely gets spent for those purposes. Oregon's tobacco tax revenue, for example, funds dozens of programs that have nothing to do with health, such as public transit; only 4.41 percent is used for tobacco-related activities.

The pork barreling of tobacco litigation settlement money has been even more egregious. In 1998, the major tobacco companies agreed to a litigation settlement that directed \$246 billion to the states, ostensibly to pay for damages caused by smoking. Yet the National Conference of State Legislatures estimates that in FY 2000 and FY 2001, the states appropriated only about 7.5 percent of the \$8 billion received in tobacco trust funds for smoking prevention and cessation.

Obviously state officials have decided that cigarette smokers are simply cash cows to be milked every time there is a budget crisis, but even within this context, a tax increase makes little sense, because it might actually make the revenue shortfall worse. Higher taxation will cause a slight decline in tobacco use and a major increase in bootlegging, both of which will reduce tax revenue.

Oregon has the 11th highest cigarette tax in the country, at \$0.68 per pack. Gov. Kitzhaber wants to increase it by another fifty cents. But since the last big tax hike—the 30 cent per pack increase authorized by the passage of Measure 44 in 1996—Oregon tobacco tax revenues have steadily declined, from \$183 million in 1997-98, to \$173 million in 1998-99, to \$164 million in 1999-00.

It would be nice to think that this was merely the result of less smoking, but Oregon officials estimate that losses due to bootlegging cost the state at least \$22 million per biennium in lost tax revenue. Experience elsewhere shows that the severity of the problem grows with the rate of taxation. Washington and New York, the two states with the highest tobacco taxes, have encountered massive problems with organized crime. It is simply too lucrative for people to resist the temptation to buy truckloads of cigarettes in low-tax states (such as Virginia, where the tax is only two cents per pack) and re-sell them in high-tax states on the black market.

Oregon's political leaders have embarked on a cynical, self-destructive path of taxation that has left them bereft of any moral authority in the public realm. If they want to re-claim a position of genuine leadership, they should begin *repealing* sin taxes, on the basis that the imposition of *any* sin tax violates the rights of people who are peacefully engaged in lawful behavior.

It doesn't matter that some of us may disapprove of such activities. Our Constitution was established to protect the rights of everyone, including politically unpopular minorities. If we begin plundering those groups simply because they don't have the votes to protect themselves, then the concept of individual liberty becomes meaningless.

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