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Opinion: Taxing soda pop is no way to fund health reform

By William F. Shughart II
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History, as Franklin Delano Roosevelt once remarked, does in fact repeat itself.

Not long after taking office as the nation's first Treasury secretary, Alexander Hamilton persuaded Congress to enact a selective excise tax on whiskey. He believed that the consumption of distilled spirits, "carried on to an extreme, no doubt very much on account of their cheapness," threatened the health and morals of the new American community as well as its economy.

Hamilton's tax nearly ended in bloodshed, averted at the last minute when the Whiskey Rebellion's leaders surrendered to a federal militia led by President George Washington himself.

Americans thought the Revolution had freed them from the duties King George had levied on tea, newspapers, legal documents, soap and salt, among others. But before the Constitution was even a decade old, selective consumption taxes — including on snuff, sugar and salt — had returned in full force. Such taxes have been with us more or less ever since.

Secretary Hamilton exploited moral opposition to "demon rum" in order to help pay off the nation's Revolutionary War debts. Now, more than two centuries later, sin taxes are again in play as Congress looks for ways to finance President Barack Obama's proposed health-care reform initiative, which may cost as much as $1.5 trillion over 10 years.

Recognizing that further hikes on existing federal excise taxes for Congress' two old standbys — alcohol and tobacco — will not raise enough revenue, Washington is considering selectively taxing "sugary" soft drinks that supposedly contribute to the modern sin of obesity. Fat cats apparently are not the only Americans who may see their tax bills go up.

Proving FDR's adage, this would not be the first time federal excise taxes have been levied on soft drinks. One such tax was enacted during World War I, but then repealed in 1924; another was in effect briefly at the start of the New Deal. The states also have gotten into the act from time to time, but soft drink taxes have been abolished in all but two states that experimented with them: Arkansas and West Virginia.

Suggesting that "soda is clearly one of the most harmful products in the food supply," as the executive director of the Center for Science in the Public Interest recently did, recasts the proposed excise tax as one with a positive effect: nudging consumer behavior toward a healthier lifestyle. According to one estimate, a tax of one cent per fluid ounce on carbonated soft drinks would raise $17 billion per year and reduce consumption by 13 percent. This appears to allow the federal government to do well by doing good.

Yet the reality is that soft drink sales have already been declining for the last nine years without a federal excise tax. While correlation is not causation, it is clearly a stretch to argue that sodas have contributed significantly to a nationwide obesity "epidemic." In fact, the obesity rates in the two states that do tax soft drinks are among the nation's highest.

Selective excise taxes violate a widely accepted principle of public finance known among economists as "horizontal equity." This principle suggests that individuals in similar economic circumstances ought to bear similar tax burdens. In other words, one person's tax bill should not be higher simply because of what he or she chooses to consume.

Excise taxes also are very blunt instruments for controlling consumption behavior; they punish responsible consumers as well as those who overindulge. Worse, a soft drink tax, like all consumption taxes, would be regressive, falling more heavily on the poor than on the wealthy.

Singling out consumers of some products to finance a health-care plan the president says will benefit all Americans is fiscal discrimination at its most brazen. And the farther the nation moves toward a single-payer health insurance program, the more pressure there will be to tax any product that anyone, anywhere, plausibly can argue is detrimental to one's health.

Today it may be carbonated soft drinks. Tomorrow, it may be ethnic food, coffee, bacon and eggs, hot dogs and red meat.

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