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Pricing Health Care: Clinton's Big Sin Tax Error

by Norman B. Ture

Apparently encouraged by endorsements from Republicans Bob Dole and John Chafee for sin taxes to fund health care reform, President Clinton has indicated that he'll propose whopping increases in cigarette taxes to pay for a significant part of his health care plan. The stated objective of the proposed cigarette excise increase of 75 cents to \$1 a pack is to raise additional tax revenue, presumably to finance the proposed federal subsidizing of small businesses' mandated health insurance premiums for their employees.

There remains serious doubt as to whether the administration has correctly identified the nation's health care problems. It's also doubtful whether the plan will effectively address the problems it has identified. But even putting these doubts aside, it is fair to ask why the proposed reforms call for raising the cigarette excise tax.

An argument for the tax increase might be made if it could be shown that a disproportionately large number of smokers have no health insurance and under the Clinton plan will obtain coverage otherwise unavailable to them. But no evidence has surfaced to suggest that this is the case.

The standard arguments, instead, are that cigarette smokers raise the cost of health care for everyone and that because of their smoking-induced health problems, they cost the economy lost output.

The notion that smokers are responsible for increased health care costs stems from the view that they are more prone than nonsmokers to heart and lung diseases and that the cost of treating their ailments inflates other health care costs as well. There surely is some truth to the idea that anything that increases the demand for health care services is certain to raise the unit price, and insofar as smokers are in fact ill more often and more seriously than nonsmokers and seek

medical care for their ailments, they must thereby exert upward pressure on health care costs. But smokers aren't unique in this respect.

Presumably people who are overweight are more prone to heart disease, among other ailments. People who have sedentary jobs and who do not exercise similarly tend to have heart problems. People with bad dietary habits are prone to a variety of diseases. The same "reasoning" that argues for taxing smokers urges that special taxes should be levied on people who are obese, or who do not exercise as much as some bureaucrat might dictate, or who eat foods with saturated fats.

The demand for health care for terminally ill people tends to be disproportionately great, as well. The same "logic" that claims smokers make health care more expensive for everyone surely applies as well to the terminally ill. If this is the justification for hiking the tax on cigarettes, then the same logic calls for a special tax, perhaps a differentially high income tax, on the terminally ill.

More fundamentally at issue is whether cigarette smokers are uniquely responsible for the rapid escalation of health care outlays that has prompted the Clintons' proposed changes in the financing and delivery of health services. The evidence strongly argues the contrary. While health care costs have soared, federal cigarette tax data through 1992 show that domestic cigarette sales have declined by 20% since peaking in 1981. State cigarette tax data show the same trend.

The other familiar contention is that smoking costs the economy the output that is lost when smokers suffer smoking-induced illnesses that keep them off the job. If the alleged cost to society as a whole is the justification for raising the tax on cigarettes, the same justification would urge levying some sort of special tax on people prone to catching colds. But, of course, the loss in all such cases is not suffered by the economy as a whole but by the individuals whose incomes are less than they would otherwise be.

Presumably, the health care problem the Clintons want to solve is of national interest. If this is not the case, the federal government has no business meddling even more than it now does in the health care market. To justify the extensive and expensive changes in the funding and delivery of health care services, the nation's health care problem must be one that involves everyone in the country. For this reason, everyone in the country, not only cigarette smokers, should help pay for the proposed remedies.

The proposed hike in the cigarette tax is perfectly consistent with Mr. Clinton's track record to date on tax matters. Convenience seems to be his only criterion. This, of course, conforms perfectly with Congress's predisposition over the past several years to treat tax policy as merely the means to get the most added revenue with the least political pain. The only principle to be found in this approach is that which guided bank robber Willie Sutton: Go where the money is. You have to wonder what, or who, will be the next victim.

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