

The consumption tax as a dichotomy: Source of public budgets and instrument of harm reduction (discussion paper)

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VLADIMÍR NOVÁK, MICHAL ŠOLTÉS²

Summary

- The tax system is an essential economic policy instrument used to finance public budgets and influence the economic behavior of individuals, households, and companies.
- Different tax liabilities on certain forms of consumption (e.g., more ecological forms of transport, less harmful tobacco products) is in the public interest, if they incentivize consumers to replace more harmful forms of consumption with less harmful options. Such tax liability differentiation can result in harm reduction without reducing overall consumption levels.
- Tax differentiation based on the potential harm of the consumption needs to take into account the extent to which it will discourage existing consumers from the more harmful forms of consumption and the extent to which it will attract new consumers, who would otherwise not consume the product at all.
- Attempts to use excise taxation to finance public budgets and as an instrument to encourage consumers to adopt less harmful behaviors have been observed in many countries over the past decade.

² We are grateful to Daniel Münich, Marek Kapička, Jan Švejnar, and Jan Berka for their comments and insights. Any remaining errors are the authors' own. In a number of passages, this study assumes that certain forms of tobacco consumption have detrimental effects on health; in our arguments, we assume that new types of tobacco products, such as electronic cigarettes and heated tobacco, are associated with a lower risk of health problems compared to smoking classic cigarettes. This assumption is based on the prevailing opinion in recent specialist literature on this topic (Hajek et al., 2014, Auer et al., 2017, McNeill et al., 2018). We must, however, also point out that these are new products and it is thus in principle impossible for research to have yet investigated their long-term health implications (Dinakar et al., 2016). The expert judgment of the health risks of these products is a matter beyond the scope of this synoptic study.