



GOVERNMENT AND SIN GOODS - GS II AND III MAINS

Q. What are sin goods and discuss the need of the government in selling sin goods? Is it ethical? Comment (15 marks, 250 words)

News: *Health tax on Tobacco products as sin goods can boost fiscal growth of India with safeguards to public health as GDP Booster*

What's in the news?

- 8.5% of children 13-15 years use tobacco. Economic burden of tobacco for the age group 35+ is estimated at ₹1773.4 billion (1.04% of the GDP) for the year 2017. Economic burden from bidi smoking alone for the age group 30-69 is estimated at ₹805.5 billion for the year 2017.

Key takeaways:

- A rethinking is required on the current tobacco taxes regime. Now, it's time came to rationalize the tax regime which is one of the most effective policy regimes for higher GDP.
- Higher taxation on Tobacco products results in higher retail prices which is one of most economical, easiest and effective ways to reduce and discourage the Tobacco consumption and initiation.

Does the government sell sin goods for public revenue?

- The debate included questions on policies of several states and the UT government as most of them often relied on selling sin goods such as alcohol, lottery to gain the state revenue.
- **Even several big states like Tamil Nadu, Maharashtra, etc were often relied on the revenue generated from the sales of alcohol to spend on its social welfare policies.**
- But several arguments were put forward from the other side is that the sin goods which are mostly consumed by the poorer and vulnerable sections of the population would brought several physical and mental trauma over the individuals and their families.
- This brings us the effective debate on government's role in selling sin goods.

What are sin goods?

- Sin goods are goods which are considered **harmful to society**.
- Examples of sin goods are Alcohol and Tobacco, Candies, Drugs, Soft drinks, Fast foods, Coffee, Sugar, Gambling, etc.



Why does the government sell sin goods?

1. Constitutional provisions:

- **Article 47** - "The state shall undertake rules to bring about prohibition of the consumption except for medicinal purposes of intoxicating drinks and of drugs which are injurious to health".

2. Role as a regulator:

- The sale and consumption of sinful commodities can be positively regulated by the state.

3. Massive illegal trade:

- The sales of sin goods such as alcohol, lotteries outside the ambit of state regulation includes numerous occasions of illicit drugs and toxic alcohol sales in open market, that even resulted in death and harmful impacts on health of people.

4. Sin tax:

- The state can play a positive role in regulating the sale and consumption of sin goods.
- An important instrument is taxes. Studies have shown that raising the tax rates on, and thereby the prices of, sin goods will discourage people.

5. Revenue to the states:

- The taxes collected form a significant source of financial resources for the state, which can be used for development programmes.
- Example: Liquor taxes brings out nearly 21% of the overall revenue in the state of Tamil Nadu.

6. Dependence on centre:

- In 2019-20, own tax revenues, collected by the states, accounted for only 43.5% of the total revenues of all states and Union Territories combined.
- State governments are heavily dependent on the financial devolutions from the Centre. At the same time, they have a greater responsibility for expenditure on social sectors.
- With the introduction of GST, there are only a limited number of goods and services - mainly alcohol and petroleum products - on which the State governments can independently set tax rates.
- So, if State finances are increasingly dependent on taxes from alcohol, it has mainly to do with the limited autonomy that the States enjoy in raising financial resources.

Why should the government indulge selling sin goods?

1. Government role is to enhance public goods:

- The role of the state is to provide public goods.
- The consumption of sin goods is instead linked with 'public bad'.

2. Social harm:

- The negative effects of the sin goods disproportionately impact the weaker sections of society.
- The taxes affect the poor more through their income than through a direct pricing effect. The poor may want to switch to illegal, lower-quality alcohol that is less expensive but harmful to their health.

3. Increasing demand rather than decreasing:

- The role of the state needs to be considered not just from the supply side, but from the demand side as well, because the rising demand for alcohol is a public health concern.



- The Indian state, at least since Independence, has regulated all aspects of alcohol on the supply side. Despite that, there is a rapidly growing demand for alcohol.
- Changing preferences: There has been an increase in the demand for alcohol over the past 20 years. There is a limit to how much demand we can control with sin taxes alone, regardless of the sin tax, if the demand is moving outwards.

4. Health issues:

- The state's role is to enhance its people's health positively, whereas selling of alcohol impacts the health of people both physically and mentally.
- Not only alcohol, the lotteries transformed few and caused many by making them into debt trap, poor belief and addiction.

5. Multiplier effect:

- Some argue that there is a direct correlation between alcohol consumption and an increase in crime. Violent crimes, assault and disorderly conduct are most common with persons who are intoxicated.

6. Addiction:

- The sin goods supplied by the states makes the citizen addictive and even changed their demographic beliefs. Example: Alcohol, lotteries, etc.

7. Economy vs health:

- The role of state is not to enhance its revenue as a businessman, rather been to stand proactive in enhancing the holistic development of its citizens. This is not with the case of sin goods.
- If a person addicted to alcohol is unable to let go of that habit despite high prices, his household will suffer.

8. Against Constitution:

- The constitution envisions states to be an effective regulator rather than a supplier of sin goods. Thus, the state as a supplier of sin goods goes against the constitutional mandate (Article 47).

9. Acting as a monopolistic industry:

- Rather than controlling the desire of private sector in selling sin goods to people, the state with its arms acted as a virtual monopoliser in selling sin goods.

WAY FORWARD:

- Rather than a supplier of sin goods, the state needs to engage positively with people through **public health campaigns** to decrease their addiction and reduce the health impacts on its people.
- The state also needs to find its **alternative source of revenue** to reduce its dependency of liquor and lottery sales.
- The states need to start an effective **phase out of alcohol sales** to certain vulnerable age groups and increase its regulation from there on in stage by stage manner.
- There is a need to **involve all the stakeholders** such as government, civil society and women to **create new recreational activities** to reduce the increasing demand of sin goods. This cut out the demand side perspective as several people got intoxicated due to the increasing stress in their routine life.