

# **Critique of Phillip Morris Study for the Czech Republic**

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# Why Do We Need to Evaluate the Study

## Misinformation from a powerful lobby can affect:

- Public policy (arguments against tobacco control measures)
- Social acceptability of smoking
- Image of public health community  
(capable of taking an action??)

# What Did the Study Say?

Smoking is good for public finances:

Net benefit \$150 million\*

\* Exchange rate \$1 = 38.8 CZK; All results are for 1999

# What Did the Study Say?

## Benefits of smoking:

- Taxes from smokers & industry
- Earlier death of smokers

(Saved health care, pension & social costs, housing for elderly)

**Total: \$ 553 mil**

# What Did the Study Say?

## Costs of smoking:

- Health care costs (smokers)
- Health care costs (ETS)
- Lost income tax if death before retirement
- Paid sick leave
- Property loss due to fire

**Total: \$ 403 mil**

# What's Wrong With It? (1)

## Methodology and framework

What is counted depends on the question asked

### Whose costs?

- ◆ Costs for the society
- ◆ Cost for an individual – smoker v. non-smoker
- ◆ Cost for the government

# What's Wrong With It? (2)

## Methodology and framework

Study does not consider costs of smoking from the societal perspective, doesn't distinguish between:

- External costs (rationale for taxation)
- Internal costs (taxes can correct internalities, welfare analysis)

The cost-benefit analysis is incomplete:

- only public finances framework (resource distribution perspective at the expense of ec. loss perspective)
- short-term perspective
- no comparison with society without tobacco

# What's Wrong With It? (3)

## Mechanism of Health Care misrepresented

HC Insurance Agency:

- collects insurance premium, and
- pays for medical care

These two amounts equal if HC is run by a commercial agency. As long as no budget subsidies, the cost of smoking is the access of insurance premium (which equals the value of medical care attributable to smoking).

Most governments subsidize HC, only smoking attributable portion of this subsidy + excess premium can be counted as costs of smoking.

# What Is Missing (and what is not)? (1)

## Costs Related to Premature Mortality

### External Costs

- ◆ Value of human capital (smokers & ETS victims) absenteeism from work
- ◆ Value of foregone income for ETS victims
- ◆ Foregone income tax and Social Security contributions (**smokers & ETS victims in productive age**, retirees in labor force)
- ◆ Foregone contributions to private pension and life insurance funds
- ◆ Higher life insurance premium (non-smokers)
- ◆ Social Security benefits paid to dependents of a deceased smoker

# What Is Missing (and what is not)? (2)

## Costs Related to Premature Mortality

### External Benefits

- ◆ **Uncollected social security benefits for retirees - pensions, nursing homes, medical care, etc (included)**
- ◆ **Smoke-related medical care costs covered directly from the state budget**

# What Is Missing (and what is not)? (3)

## Costs Related to Premature Mortality

### Internal Costs

- ◆ Value of smoker's life
- ◆ Value of smoker's human capital for the dependents
- ◆ Grief of relatives
- ◆ Value of forgone smoker's income potential
- ◆ Denied life insurance benefit due to negligence

# What Is Missing (and what is not)? (4)

## Costs Related to Morbidity

### External Costs

- ◆ Pain/suffering (ETS victims and their family)
- ◆ Medical costs for ETS victims (out of pocket)
- ◆ Higher health insurance premium (non-smokers)
- ◆ Smoke-related medical care costs covered directly from the state budget
- ◆ Sick leave covered by employer or state (**smokers & ETS victims**)
- ◆ Loss of income tax (smokers & ETS victims)
- ◆ Disability and social security benefits paid both from public and private funds
- ◆ Lower productivity - workers in both public and private sectors

# What Is Missing (and what is not)? (5)

## Costs Related to Morbidity

### Internal Costs

- ◆ Pain/suffering (smoker and family)
- ◆ Medical costs (out of pocket)
- ◆ Higher health insurance premium (smokers)
- ◆ Loss of income due to illness or disability
- ◆ Lower productivity among workers in private sectors

**Reimbursement of medical costs (smokers & ETS victims)** – this is not correct, only insurance premium represent costs, reimbursement is a good purchased by insurance

# What Is Missing (and what is not)? (6)

## Costs Related to Fire

### External Costs

- ◆ Higher costs of property insurance

### Internal Costs

- ◆ Out of pocket property loss due to fire

**Value of lost property** – this is not correct, it assumes non-existence of property insurance

# What Is Missing (and what is not)? (7)

## Costs Related to Consumption of Tobacco Products

### Internal Costs

- ◆ Expenses on tobacco

### External Benefits

- ◆ Excise tax, VAT, custom duty

# Tobacco Taxes - Benefits, but ..

There are **alternative tax bases** - the only adverse welfare impact would be the marginal costs of switching to an alternative taxable product

Taxes do not represent a new value, but an income redistribution

If \$522 million of taxes are left out from the PM study, **smoking costs** the government 13-times more than what is saved

# What else is wrong with the study?

**It underestimates smoking  
related health care expenses**

**PM study: \$294 mil**

**Sadilek's study: \$593 mil, counting  
only hospital care**

**Reason: % of treatment costs  
assigned to smoking**

# And Finally, ...?

- **Replication of results is impossible**
- **Typos**
- **Confusing presentation of results**

# Lesson Learned

- **Monitoring of tobacco companies' strategy is necessary**
- **Adequate response can prevent misinformation and harm to tobacco control policy, but require existence of local research capacity**
- **Mobilization of local NGOs can be achieved from outside (global tobacco control support)**