

# Will Tobacco Control Hurt the Economy?

Hana Ross, PhD.

RTI International



<http://www.tobaccoevidence.net>

# Arguments Against Tobacco Control (1)

- **Government should not interfere with the freedom of choice to consume a legal product, tobacco**
- **The economy needs tobacco industry: provides jobs (tobacco farmers, workers in the tobacco factories, distributors, sellers, advertising agencies); contributes to GDP, companies pay corporate taxes, ...**

## **Arguments Against Tobacco Control (2)**

- **Higher tobacco taxes will reduce consumption and government will lose tax revenue**
- **Higher tobacco taxes will hurt the poor since they smoke the most**
- **Higher tobacco taxes will increase tobacco smuggling and government will lose tax revenue**

# **Freedom of Choice Argument (1)**

- **Are people well informed about the health risks and the risk of addiction when they make the decision to start smoking?**
  - **The majority of smokers start to smoke when they are very young (89% of smokers in the US start before they are 19; mean initiation age in Malaysia < 20)**
  - **At that age, people underestimate the health risks and addiction risks** <sup>4</sup>

## **Freedom of Choice Argument (2)**

- **Is it easy for people to change their mind about the decision to smoke?**
  - **No. About 90% of current smokers regret that they smoke**
- **Is there physical or economic harm imposed on others?**
  - **Yes. SHS has negative health impact, public funds pay for consequences of the private decision to smoke**

# Is Tobacco Industry is Important for the Economy? (1)

- **Contribution to GDP? A significant economic *presence* does not imply significant economic *dependence*. In 1998, tobacco contributed 1% to GDP of Malaysia: 0.5% to agricultural production and 1.8% to manufacturing production.**

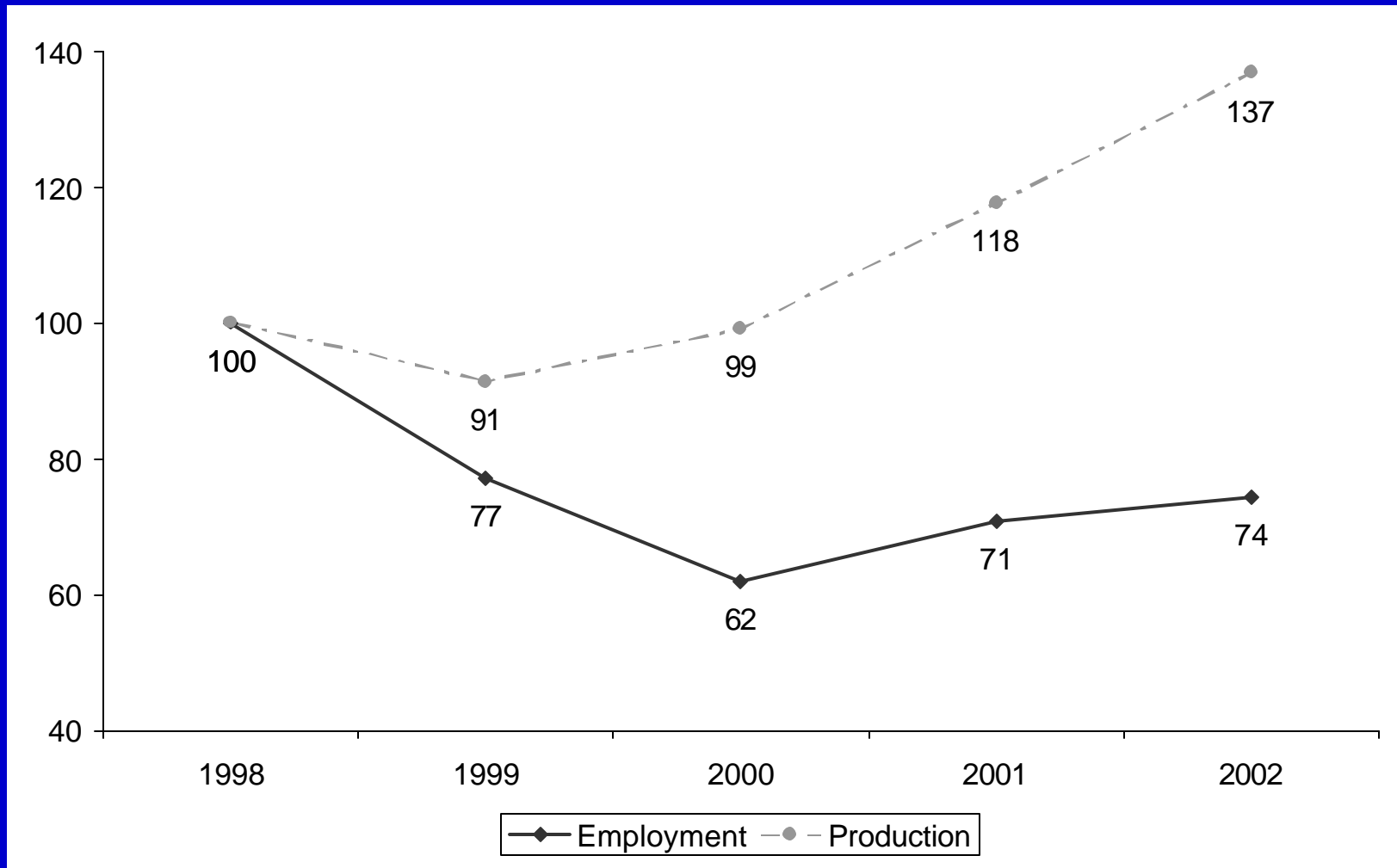
## **Is Tobacco Industry is Important for the Economy? (2)**

- **Jobs? Spending on tobacco is rarely important to an economy (about 3% of consumer expenditure in Malaysia in 1998)**
- **Tobacco related employment is a small % of total labor force – estimates for Malaysia do not exist, but even in labor intensive kreteks producing Indonesia, it was 6% of labor force in 1996 and it is declining**

# **Is Tobacco Industry is Important for the Economy (3)**

- **Number of jobs can be manipulated by counting all household members who have any income related to tobacco (even those with small % of their income coming from tobacco)**
- **Quality of jobs offered is not good (working conditions, child labor), job prospects bleak**
- **Money not spent on tobacco will be spent on other goods and services instead, thereby creating a comparable number of jobs**

# Indices of Employment and Production in Tobacco Industry in Ukraine



## **Is Tobacco Industry is Important for the Economy (4)**

- Do tobacco taxes help the economy? Goods purchased instead of tobacco are also taxed; excise taxes can be collected on other goods or activities**
- What is the impact of tobacco production on economic equality? How is the tobacco business wealth distributed and who profits from it? In 1997 2% of global tobacco export came from Indonesia, but the country received only 0.45 % of all tobacco export earnings.**

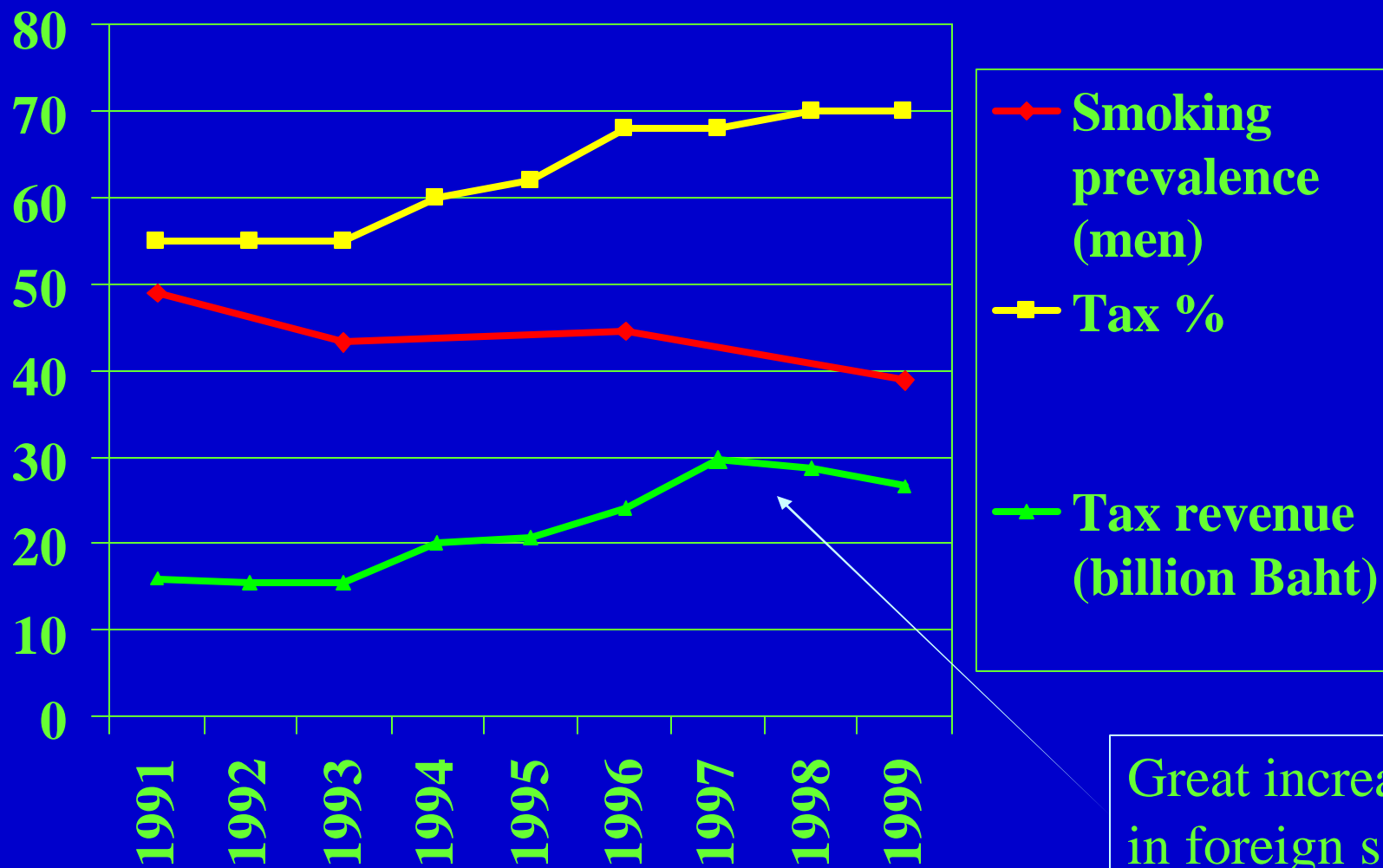
# Higher Tobacco Taxes and Government Revenue (1)

- **Impact of higher tobacco taxes depends on:**
  - the degree to which is the increase translated into consumer prices
  - how responsive consumers are to price change (price elasticity)
  - affordability of the product

# Higher Tobacco Taxes and Government Revenue (2)

- Those who continue to smoke will pay in aggregate more taxes. Will this additional amount make up for taxes not collected from those who stop smoking?
- Math formula can calculate the “optimal” tax level. In most countries, including Malaysia, this would be at least 90% tax level. Current tax level in Malaysia is below 35%.

# Thailand: Tobacco revenues increased with tax increases while prevalence declined



Great increase  
in foreign sales

# Hypothetical tax increase Indonesian Example

Tax increase	% price change	% demand change	% tob. tax revenue change	Revenue change as % of GDP
10% ↑	3% ↑	2% ↓	8% ↑	0.26
50% ↑	18% ↑	9% ↓	36% ↑	0.33
100% ↑	36% ↑	19% ↓	63% ↑	0.40

# **Will Higher Taxes Hurt the Poor? (1)**

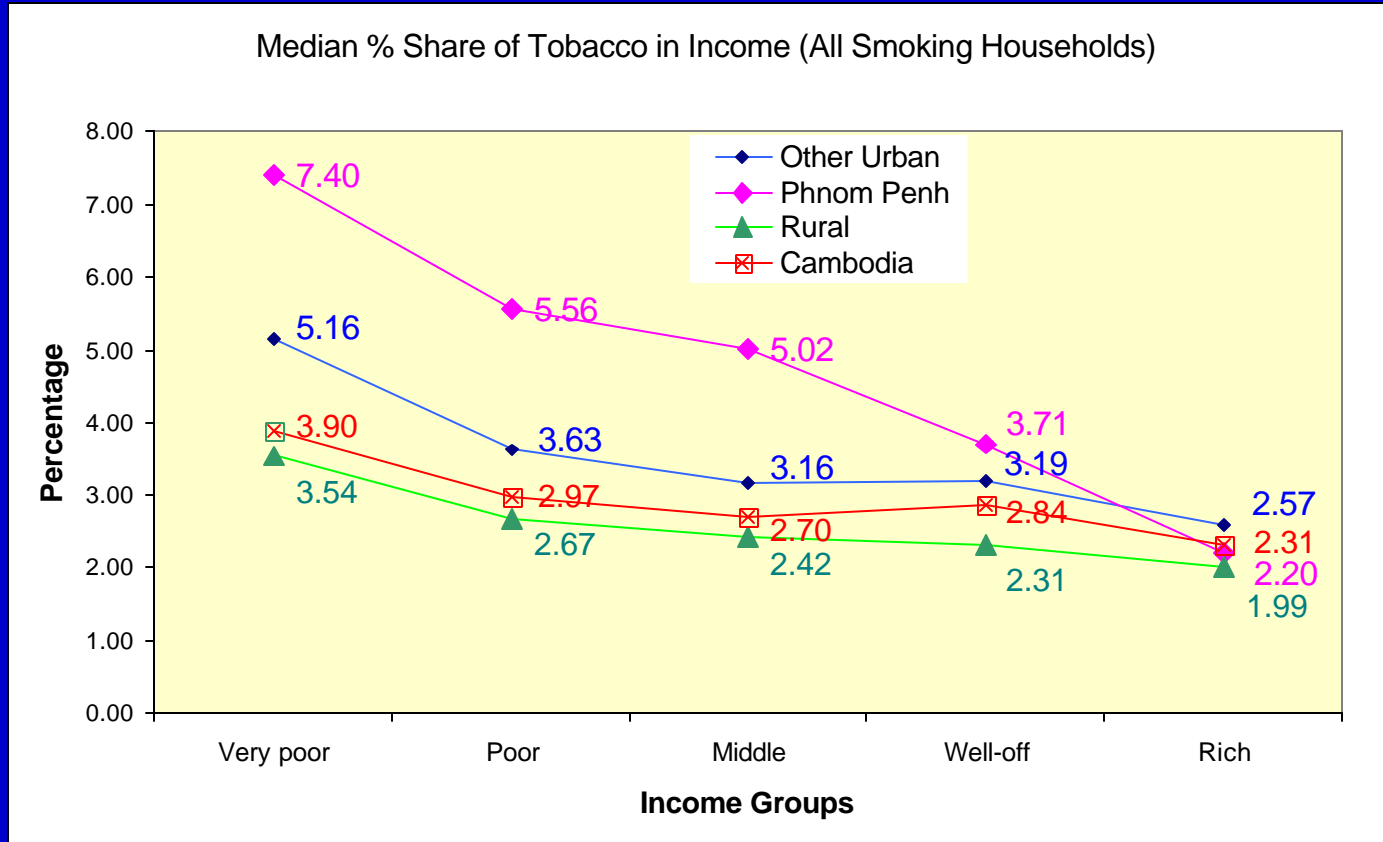
- **Low income groups smoke more and spent higher proportion of their income on tobacco**
- **A tobacco tax increase leading to higher cigarette prices will reduce the relative contribution of the poor to the total tobacco tax collection**
  - **Greatest sensitivity to price in lowest income populations**

## **Will Higher Taxes Hurt the Poor? (2)**

- **Tobacco taxes should be considered in context of overall tax and spending system**
  - **Revenues generated from tax can be used to support programs targeting the poor, including cessation help**
- **Health benefits of tobacco control are progressive**
  - **Tobacco accounts for about half of health gap between the rich and poor**

# The Poor Are Hurt Most by Tobacco

## Portion of income spent on tobacco increases in Cambodia as income decreases



# The Poor Bear the Most Health Risk of Smoking Risk of Premature Death Among Males at Age 35-69 by Income Group, Canada, 1991

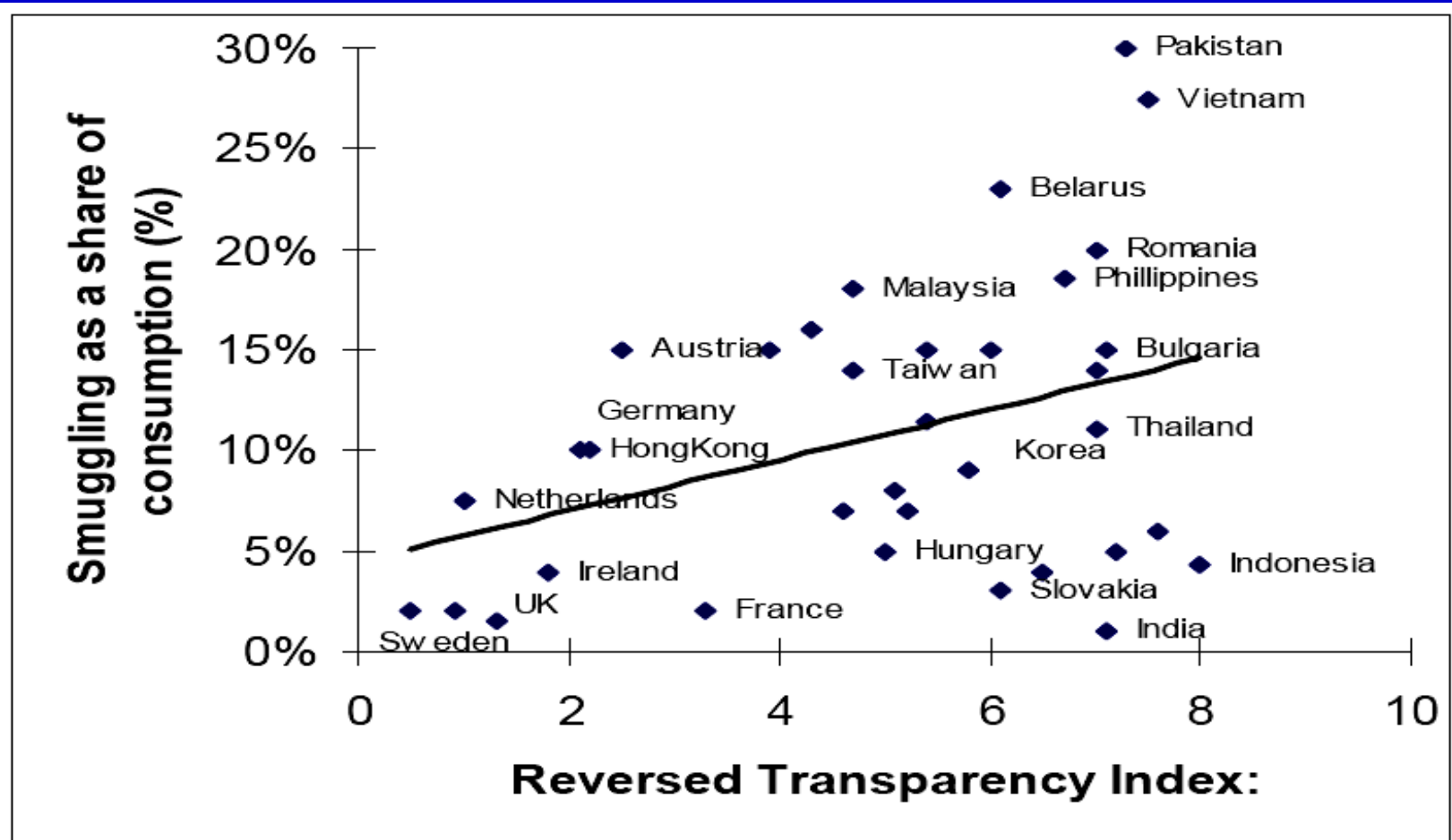
	Attributed to Smoking	Attributed to Smoking, but would have died anyway	Other Causes	Total Risk
<b>Richest</b>	<b>5</b>	<b>0</b>	<b>14</b>	<b>19</b>
<b>Richer</b>	<b>6</b>	<b>1</b>	<b>16</b>	<b>23</b>
<b>Average</b>	<b>7</b>	<b>1</b>	<b>17</b>	<b>25</b>
<b>Poorer</b>	<b>9</b>	<b>1</b>	<b>17</b>	<b>27</b>
<b>Poorest</b>	<b>13</b>	<b>2</b>	<b>20</b>	<b>35</b>

# **Tobacco Taxes, Cigarette Smuggling and Tax Revenue (1)**

- **The difference in cigarette taxes between countries is not the most important determinant of cigarette smuggling: smuggled cigarettes are not taxed at all**
- **More important is the perceived level of corruption in the economy (distribution channels)**

# Tobacco smuggling tends to rise in line with the degree of corruption

## Smuggling as a function of transparency index

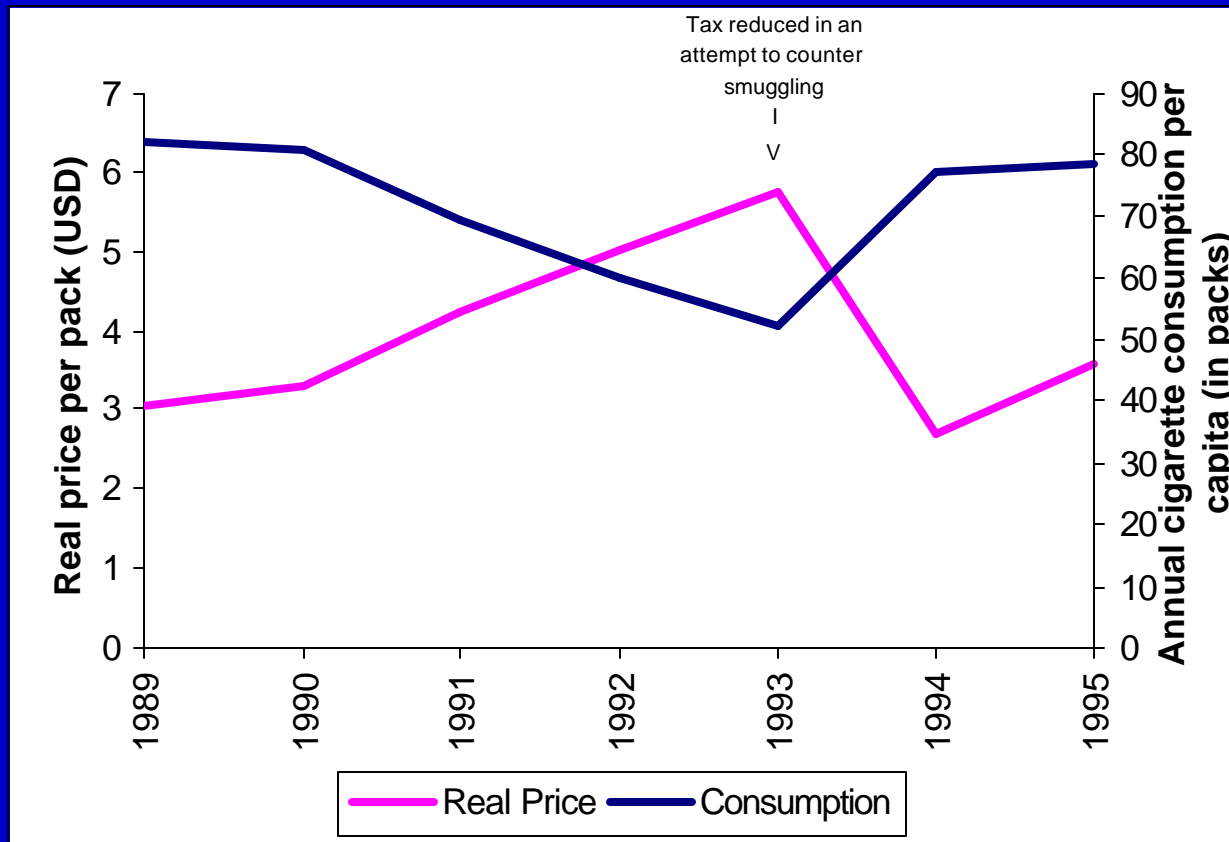


# **Tobacco Taxes, Cigarette Smuggling and Tax Revenue (2)**

- **Tax increase will lead to revenue increase, even in the event of increased smuggling (e.g. NY 2002: tax increased from 8c to \$1.50, sales reduced by 47%, but the tax revenue increased by 11%)**
- **Reduction in taxes will not reduce smuggling, but will increase consumption**

# Lower Tax Rates in Canada in Response to Smuggling

Real price of cigarettes and annual cigarette consumption per capita, Canada, 1989-1995



# Cigarette Smuggling in Malaysia

- **Industry estimates: smuggling represent about 21% of total consumption**
- **Government estimates: smuggling represent about 10% of total consumption**
- **Government confiscates smuggled cigarettes that represent about 1.4% of total consumption**

# Smuggling Estimates in Asia

Country	Share of smuggled cigarettes in 1995
Cambodia	37%
China	4%
Hong Kong	10%
Indonesia	5%
Malaysia	18%
Myanmar	53%
Philippines	19%
Singapore	2%
Taiwan	14%
Thailand	11%
Vietnam	28%

# Smuggling and Tax Revenue

Percent of revenue increases from a 10% tax increase, taking smuggling into account

<u>Country</u>	<u>Unilateral</u>	<u>Multilateral</u>
France	+5.8	+7.0
Germany	+2.6	+4.7
Spain	+8.6	+9.1
17 Countries	+6.9	+8.2

# Control of Smuggling

- Countries don't need to make a choice between higher cigarette tax revenues and lower cigarette consumption
  - Higher tax rates can achieve both
- Effective control measures of smuggling exist
  - Focus on large container smuggling
  - Prominent local language warnings and tax stamps
  - Increase penalties
  - Licensing and tracking of containers
  - Increase export duties or bonds
- Multilateral tax increases help combat smuggling<sub>26</sub>

# Conclusion

- **Tobacco business is not important for the economy**
- **Tobacco consumption hurts the economy: worse life expectancy resulted in 12% per capita lower income in FSR compared to OECD countries**
- **Tobacco control measures are cost-effective: tobacco tax increase results in DALY for \$4 - \$34; non-price measures results in DALY for \$34 to \$685 in low-income and middle-income countries.**