Global evidence to refute key arguments against tobacco taxation

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Training on Economics of Tobacco Control for Researchers and Practitioners in Latin America and the Caribbean
5 February 2018, Washington, DC
Overview

• Key arguments against tobacco taxation
• Evidence to refute key arguments against tobacco taxation
• Summary
Key arguments against tobacco taxation
Key arguments against tobacco taxation

- No link between increased tobacco prices (as a result of increased taxes) and reduced consumption
- Tax increases will lead to declines in government revenue (or less revenue than predicted)
- Higher taxes will lead to illicit trade (especially smuggling) and, relatedly, organized crime
- Tobacco tax is regressive so higher taxes are unfair on poorer and more marginal groups in society
- Tobacco taxes are unfair on, and punitive towards, smokers
- Tax increases will have negative economic impacts on local business and employment levels as they will lead to greater cross-border trade
Evidence to refute key arguments against tobacco taxation
1 - No link between increased tobacco prices and reduced consumption
Percentage Change in Real Cigarette Prices Versus Percentage Change in Per Capita Consumption of Cigarettes, 1996–2011

Price and consumption of cigarettes
Mexico, 2001-2014, real prices

Sources: EIU, Euromonitor, and World Bank
Price and consumption of cigarettes
Argentina, 2015-2017, real prices

Real Price of a Pack of 20 Cigarettes

Weighted Average Price (March 2004=100)
Packs sold

Millions of Packs

June-15, Dec-15, June-16, Dec-16, June-17, Dec-17
Price and Prevalence of Adult Smokers
Brazil, 2006–2013 (adjusted for inflation)

Sources: Ministry of Health, Brazile EIuE World Bank
Some arguments against tobacco taxation can be refuted with strong evidence. Most of the countries developed their own estimations of price elasticities and evidence available can be used to show this link.

Additionally, Tobacco Industry Internal documents show that the industry has been aware of this relationship for many years.
2 - Tax increases will lead to declines in government revenue
Excise tax per pack and excise tax revenue

Source: The Economics of Tobacco Control Project at the University of Cape Town
Tobacco Excise Taxes and Revenues
Canada, 1990–2015

Source: Physicians for a Smoke-Free Canada and ERC.
Laffer curve and revenue collection
Argentina, in dollars (march 2016=100)
Tax increases and government revenue

• Raising cigarette taxes generates higher tax revenues. Recent estimations show that raising the tax by one international dollar per pack of 20 cigarettes would increase average cigarette prices by 42%, reduce smoking prevalence by 9%, and prevent 15 million smoking-attributable deaths among adults alive in 2014. At the same time, this would increase tax revenues by 190 billion international dollars, a 47% increase in revenues.

• Estimations also show that raising tobacco taxes in the Latin America and Caribbean (LAC) region will generate extra tax revenue. Assuming a 50% increase in excise taxes, the tax increase would raise cigarette prices by an average of 28% across the region. The volume of cigarette sales would decrease by 7% and cigarette tax revenue would increase by 32%, representing an extra US$ 7 050 million in revenue, showing there is enough room to increase tobacco excise taxes in the LAC region and generate extra tax revenues.
3 - Higher taxes will lead to illicit trade and, relatedly, organized crime
Share of Illicit Trade Versus Retail Prices
Price of the Most Popular Brands, by Country, 2012

Sources: World Health Organization 2013 and Euromonitor International 2012
Illicit Trade Versus Retail Price by Country Income Group, 2007

Drivers of Illicit Tobacco

- Corruption
- Weak tax administration
- Poor enforcement
- Presence of informal distribution networks
- Presence of criminal networks
- Access to cheaper sources

Sources: NRC/IOM 2015; NCI/WHO 2016
Share of Illicit Trade Versus Corruption by Country, 2011

Sources: Euromonitor International 2011 and Transparency International 2011
Illicit Cigarette Market Share and Total tax
Spain, 1991–2011

Source: ERC Group 2011
Illicit Cigarette Market Share and Total tax
Italy, 1991–2010

Sources: European Commission 1991–2002 and ERC Group 2011
Cigarette Taxes and Illicit Market Share
United Kingdom, 1993–2010

Sources: Her Majesty's Customs and Excise 2015 and ERC Group 2011
Higher taxes and illicit trade

- Strengthen tobacco tax administrators’ capacity to monitor tobacco product markets and evaluate the impact of tobacco tax increases is a must to reduce illicit trade.

- The tobacco excise department should work with other key areas (such as Customs) to minimise non-compliance and monitor trade, as well as with tax authorities from neighbouring countries and regional and global organisations.

- Strengthen tobacco tax administrators’ capacity in combination with technology and severe penalties for those caught engaging in illicit trade in tobacco products.
4 - Tobacco tax is regressive so higher taxes are unfair on poorer and more marginal groups in society.
Prevalence of Current Tobacco Use Among Adults Age 15 and Older, by Wealth Quintile, 2008–2010

Source: NCI & WHO 2016
Proportion of income spent on indirect taxes
Britain, 2011/12

Source: Christopher Snowdon (2013)
Aggressively Regressive: The ‘sin taxes’ that make the poor poorer
Impact of Tobacco Tax Increases on the Poor

- Tobacco taxes are regressive, but tax increases can be progressive
  
  • Greater price sensitivity of poor – relatively large reductions in tobacco use among lowest income populations, small reductions among higher income populations
  
  • Health benefits that result from tax increase are progressive
Who Pays & Who Benefits
Turkey - 25% Tax Increase

Source: Adapted from Önder & Yürekli, 2014
People’s Republic of China
Distribution of marginal taxes and health benefits by SES

Lowest SES group: Pays 6.4% of increased taxes but receives 32.1% of health benefits: hence, health/tax ratio: 5.02

Source: ADB 2013
Tobacco Taxes & Equity

Need to consider overall fiscal system

• Key issue with tobacco taxes is what’s done with the revenues generated by the tax

• Net financial impact on low-income households can be positive when taxes are used to support programs targeting the poor

• Concerns about regressivity offset by use of revenues for programs directed to poor
5 - Tobacco taxes are unfair on, and punitive towards, smokers
While some may agree that high tobacco taxes are unfair on smokers, it is also true that most smokers want to quit, and that higher prices induce smokers to quit.
Tobacco tax and smokers

- Increasing tobacco taxes receives a higher public support if it is implemented as part of comprehensive government strategy to reduce tobacco consumption, in particular among children and adolescents. Support for tax increases is higher when funds are earmarked to protect public health and the most vulnerable groups (e.g. retired or at-risk population).
Tax increases will have negative economic impacts on local business and employment levels.
The number of jobs that depend on tobacco has been falling in most countries, largely thanks to technological innovations, the shift from state-owned to private ownership of tobacco manufacturing, and Globalization.

Increased mechanization and automation has resulted in less reliance on manual labor. In particular, in cigarette production, the industry's continued consolidation process is expected to continue and employment is expected to decline at an annualized rate of 1.9% per year.
Unmanufactured tobacco production
High, low- and middle-income countries and China, 1961-2014

Employment and establishments
Evolution and estimated trend in cigarette manufacturing

Source: Tobacconomics based on IBISWorld Industry Report: Global Cigarette & Tobacco Manufacturing
Tax impact in the employment

• Reductions in tobacco-dependent employment following tax increases are offset by increases in employment in other sectors as spending on tobacco products is replaced by spending on other goods and services.

• In most countries, it is likely that there will be either no net impact on jobs or, more likely, a small increase in jobs following a tax increase.

• If concerns exist about job losses in tobacco-dependent sectors, using a portion of new tobacco tax revenues to move tobacco farmers into other crops and/or to retrain those employed in tobacco product manufacturing for work in other sectors can reduce these concerns.
Summary
Conclusions

- Higher tobacco taxes will significantly reduce consumption
- Higher tobacco taxes will increase government revenues
- Counterarguments about negative economic impact false or greatly overstated
- Taxes generally considered one of the “best buys” in NCD prevention
THANK YOU!

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