Raising Revenue & Cutting Costs: Excise Taxes & Health

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Economic Commission for Latin America and the Caribbean
XXX Regional Fiscal Policy Seminar
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Overview

• Health & Economic Impact of Non-Communicable Diseases
• Impact of Tobacco, Alcohol, and Sugary Beverage Taxes
• Taxes and Tax Revenues
Health & Economic Impact of NCDs
Leading Causes of Death Globally

Other Conditions include communicable diseases, maternal/perinatal conditions, and nutritional deficiencies
**Total Deaths by Income**

<table>
<thead>
<tr>
<th>Income Category</th>
<th>Group I - Communicable diseases, maternal, perinatal and nutritional conditions</th>
<th>Group II - Other deaths from noncommunicable diseases</th>
<th>Group II - Premature deaths from noncommunicable diseases (below the age of 60), which are preventable</th>
<th>Group III - Injuries</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-income countries</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>25 million</td>
<td>0.9M</td>
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<td>20 million</td>
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<td>15 million</td>
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<tr>
<td>10 million</td>
<td>5.9M</td>
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<tr>
<td>Upper middle-income</td>
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<tr>
<td>25 million</td>
<td>1.1M</td>
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<td>20 million</td>
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<td>15 million</td>
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<tr>
<td>10 million</td>
<td>3.0M</td>
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<tr>
<td>Lower middle-income</td>
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<tr>
<td>25 million</td>
<td>3.3M</td>
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<tr>
<td>20 million</td>
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<td>10 million</td>
<td>3.0M</td>
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<tr>
<td>Low-income countries</td>
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<tr>
<td>25 million</td>
<td>6.8M</td>
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<td>20 million</td>
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<td>15 million</td>
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<tr>
<td>10 million</td>
<td>13.6M</td>
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</tr>
</tbody>
</table>

Source: WHO 2010
Economic Consequences of NCDs

• Large economic burden from NCDs:
  • Large, growing health care costs from treating NCDs
  • Significant lost productivity
  • Cause of poverty
  • Account for much of inequalities in health
Significant Economic Costs

Source: World Economic Forum & Harvard School of Public Health
Economic Costs of Unhealthy Behaviors

• Significant direct and indirect costs
  • Tobacco use: > $1.4 trillion in 2012
    • Equivalent to 1.8% of global GDP
  • Alcohol use: 2.1% - 2.5% of GDP
  • Obesity: ~$2 trillion in 2014
    • Equivalent to 2.5% of global GDP


www.tobacconomics.org
Taxes, Prices and Unhealthy Behaviors
"Sugar, rum, and tobacco, are commodities which are nowhere necessaries of life, which are become objects of almost universal consumption, and which are therefore extremely proper subjects of taxation."
Cigarette Price & Consumption
Mexico, 2001-2014, Inflation Adjusted

Sources: EIU, Euromonitor, and World Bank

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Adult Smoking Prevalence & Price

Brazil, Inflation Adjusted, 2006-2013

Sources: Ministry of Health, Brazil; EIU; World Bank

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Cigarette Price & Youth Smoking Prevalence
Chile, 2000-2015

Source: Paraje, 2017
Who Pays & Who Benefits
Turkey, 25% Tax Increase

Source: Adapted from Önder & Yürekli, 2014

<table>
<thead>
<tr>
<th>Change in Consumption</th>
<th>Change in Taxes Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>-35.3%</td>
<td>8.5%</td>
</tr>
<tr>
<td>-20.4%</td>
<td>9.7%</td>
</tr>
</tbody>
</table>

Source: Adapted from Önder & Yürekli, 2014
Distilled Spirits Sales and Prices 
Ukraine, 2002-2016, Inflation Adjusted

Sales Volume, Million Litres
Real Price

Sources: Euromonitor; World Bank; and author’s calculations
Soda Consumption & Obesity
Selected Countries

Source: Soda consumption from Euromonitor, 2011; Obesity prevalence from OECD Health Data, 2005
Soft Drink Prices & Consumption
Percentage Change, 2000-2014, Selected Countries

Source: Euromonitor, 2015, and author’s calculations
Impact of Sugary Drink Tax on Sales Mexico, 2007-2016


Figure 17.3  Tobacco Control Policies and Cost Per Healthy Life-Year Gained, by WHO Region

Note: HLYG = healthy life-year gained.

Source: Based on calculations from World Health Organization CHOICE model, 2016.
Tobacco, Alcohol & Sugary Drink Taxes
Sugary Drink Taxes, August 2016

A Look at Some of the World’s Anti-Soda Efforts

- Countries and cities currently levying an SSB tax or have passed one.
- Countries and cities where lawmakers are considering an SSB tax.
- States and cities that have made or are making efforts to require some kind of health-warning label for SSBs.

http://library.crossfit.com/free/pdf/CFJ_SipBecomes_Drag_Cecil_Map.jpg
Cigarette Tax and Tax Revenues
Ukraine: 2008-2015

Average excise rate for cigarettes – increased 10-fold
Cigarette Tax Revenue – increased 6-fold

Source: Syvak and Krasovsky, 2017
The Laffer Curve – Argentina

Source: Tobacconomics, 2018
Tobacco tax revenue as a percentage of Total tax revenues – South America 1990-2014

Source: tobacconomics, 2018
Alcohol tax revenue as a percentage of total tax revenues – Selected Central American & Caribbean Countries 2000-2015

Source: ECLAC, 2017
Cigarette Excise Tax per Pack
Philippines, 2012-2018

- Low
- Medium
- High
- Premium

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Cigarette Sales and Prices
Philippines, 2002-2016, Inflation Adjusted

Cigarette Sales, Millions
Price (2016 pesos)

Sources: Euromonitor, World Bank, and Authors’ Calculations
Incremental Revenues for Health and the Poor, Philippines, 2001-2016

Source: Adapted from Jeremias Paul, 2017
The Case of the Philippines: Benefits to the Economy

Increased fiscal space created by higher tobacco taxes helped to attain investment grade status, which lessen the cost of borrowing

<table>
<thead>
<tr>
<th>Rating Agency</th>
<th>Rating Information</th>
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<tbody>
<tr>
<td>Moody's</td>
<td>Investment Grade Baa3 Positive (Oct. 3, 2013); Upgraded to Baa2 Stable (Dec. 11, 2014)</td>
</tr>
<tr>
<td>Fitch Ratings</td>
<td>Investment Grade BBB- Stable (March 27, 2013); Affirmation (March 25, 2014); Upgraded to BBB- Positive (Sept 24, 2015)</td>
</tr>
<tr>
<td>Japan Credit Rating Agency (JCRA)</td>
<td>Investment Grade BBB/Stable (May 7, 2013); Affirmation (May 30, 2014); Upgraded to BBB+ /Stable (July 6, 2015)</td>
</tr>
<tr>
<td>Rating &amp; Investment (R&amp;I) Information, Inc.</td>
<td>Investment Grade BBB/Stable (July 9, 2014); Affirmation (July 20, 2015)</td>
</tr>
</tbody>
</table>
Tobacco Taxes and Revenues

• The Addis Ababa Action Agenda states:

“… price and tax measures on tobacco can be an effective and important means to reduce tobacco consumption and health-care costs, and represent a revenue stream for financing development in many countries”
Summary
Conclusions

• Higher tobacco and alcohol taxes, new sugary beverage taxes significantly reduce consumption

• Reduced consumption leads to fewer NCDs, less spending on health care, increased productivity, and improved development

• At the same time, tax increases/new taxes will generate significant new revenues in short to medium term
For more information:

Tobacconomics
http://www.tobacconomics.org

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Extra Slides
Common Oppositional Arguments

• Industries and allies use several common arguments in opposition to tax increases:
  • Won’t have the intended impact in terms of reducing use and consequences
  • Will lead to extensive tax avoidance and tax evasion
  • Will harm poor and working class consumers
  • Will lead to massive job losses

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Tax Avoidance & Evasion
Tax Avoidance & Evasion Do NOT Eliminate Health Impact of Higher Taxes

NYC Smoking Prevalence Declined as Price Increased

Source: Schroth, 2014
Tax Avoidance & Evasion Do NOT Eliminate Revenue Impact of Higher Taxes

Cook County Cigarette Tax and Tax Revenues - FY01-FY06

Chicago tax rises from 16 to 48 cents
Chicago tax up to 68 cents, 1/1/06
Chicago smoking ban, 1/16/06
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
Figure 12 – Estimated Volumes of Cigarettes Consumed in the U.K. – Duty paid, illicit, and cross-border shopping, 2000-01 – 2013-14

Source: HM Revenue & Customs, 2014

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Combating Illicit Tobacco Trade

• Illicit trade protocol to the WHO FCTC
  – Adopted November 2012; currently in process of being signed/ratified; provisions calling for:
  – Strong tax administration
    • Prominent, high-tech tax stamps and other pack markings
    • Licensing of manufacturers, exporters, distributors, retailers
    • Export bonds
    • Unique identification codes on packages
  – Better enforcement
    • Increased resources
    • Focus on large scale smuggling
  – Swift, severe penalties
  – Multilateral/intersectoral cooperation

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Beverage Tax Avoidance & Evasion

Little evidence of significant tax avoidance & evasion

- low taxes relative to prices
- costly to avoid/evade taxes

- **Illinois** – recent experiences with beer taxes
  - IL – raised tax from 7 cents/gallon to 18.5 cents/gallon, August 1999; again to 23.1 cents/gallon September 2009
  - Iowa – 19 cents/gallon throughout
  - Indiana - 11.5 cents/gallon throughout
  - Wisconsin – 6.45 cents/gallon throughout
Percent Change in State Beer Taxes Revenues, IL, IN, IA & WI, 1998-2000

Source: Brewers’ Almanac, 2013, and author’s calculations
Percent Change in Beer Taxes Revenues
IL, IA, IN, WI 2008-2010

Source: Brewers’ Almanac, 2013, and author’s calculations
Impact on the Poor
Tobacco & Poverty

Vicious Cycle of Tobacco and Poverty

- **Forgone Income 1:** More money spent on tobacco: high opportunity cost. Less money spent on education, nutrition, etc.
- **Forgone Income 2:** Due to treatment cost and loss of work days.
- **Forgone Income 3:** Due to premature death.
- Breadwinner gets sick due to tobacco use.
- Higher prevalence and consumption level.
- Youth and women start smoking and men smoke more.
- Income increases.
- Family falls into poverty.

Source: NCI & WHO 2016

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Impact on the Poor

- Concerns about the regressivity of higher alcohol & tobacco taxes, food/beverage taxes
  - Most excise taxes are regressive, but tax increases can be progressive
    - Greater price sensitivity of poor – relatively large reductions in use among lowest income populations, small reductions among higher income populations
  - Health benefits that result from tax increase are progressive

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Who Pays & Who Benefits
Turkey, 25% Tax Increase

Source: Adapted from Önder & Yürekli, 2014
Progressivity of Tobacco Tax Increase
Chile

Figure 6: Total Income Effect: Direct and Indirect Effect of Taxes
(tobacco price increase, medical expenditure and working years gained)

Source: Author's estimation using a price shock of 25%

Source: World Bank, Fuchs et al., 2017
Impact on the Poor

– Need to consider overall fiscal system

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

• Greater public support for tax increases when revenues are used for prevention & control programs and/or other health programs

• 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
Philippines ‘Sin Tax’ Reform

National Government Allocation for Health Insurance Premiums for the Poor

Source: Paul, 2016

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Impact on the Economy
Industries argue that production and consumption of their products makes a significant economic contribution

- employment in farming, manufacturing, distribution, retailing, and related sectors
- multiplier effects as income earned in these jobs is spent on other goods & services
Excise Taxes and Jobs

Industry-sponsored studies tell only part of story:

• Focus on the gross impact:
  • New tax or tax increase will lead to decreased consumption of taxed product
  • Results in loss of some jobs dependent on production of taxed product

• Ignore the net impact:
  • Money not spent on taxed product will be spent on other goods and services
  • New/increased tax revenues spent by government
    • Offsetting job gains in other sectors
Tobacco Taxes and Jobs

• Many published studies assess impact of reductions in tobacco use from tax increases and/or other tobacco control measures:
  • Variety of high, middle, and low income countries
  • Use alternative methodologies
• Generally find that employment losses in tobacco sector more than offset by gains in other sectors
Tobacco Taxes and Jobs

Concerns about job losses in tobacco sector have been addressed using new tax revenues:

- Turkey, Philippines among countries that have allocated tobacco tax revenues to helping tobacco farmers and/or those employed in tobacco manufacturing make transition to other livelihoods
  - Crop substitution programs, retraining programs
Employment changes associated with the introduction of taxes on sugar-sweetened beverages and nonessential energy-dense food in Mexico

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ARTICLE INFO

Keywords:
- Employment
- Taxes
- Mexico
- Evaluation
- Policy
- Obesity

ABSTRACT

We assessed changes in employment in the manufacturing industry, the commercial sector and national unemployment rates, associated with the fiscal policies implemented in 2014 in Mexico: a 1 peso per liter excise tax to sugar-sweetened beverages (SSB) and an 8% tax on nonessential energy-dense food. We used data from three nationally representative surveys. Controlling for contextual variables, we used interrupted time series analyses to model changes in number of employees in the SSB and nonessential energy-dense food industry, in commercial establishments selling beverages and food and changes in national unemployment rates. Our results show that there were no significant changes in employment associated with the taxes in the manufacturing industries (for beverages and nonessential energy-dense food). We found a very small increasing trend in the post-tax period for employment in commercial stores and a decreasing trend in the unemployment rate. However, these changes are negligible and unlikely to be caused by the implementation of the taxes. In conclusion, there were no employment reductions associated with the fiscal policies implemented in Mexico in 2014 on SSB and nonessential energy-dense food.
A- Sugar-sweetened beverages industry

Thousands of employees, Mexico, 2007-2016; Guerrero-Lopez, et al., 2017
B- Nonessential energy-dense food industry

Thousands of employees, Mexico, 2007-2016; Guerrero-Lopez, et al., 2017
Fig. 2. Thousands of employees in commercial establishments. Mexico, EMEC, 2011–2015.
Fig. 3. National unemployment rate. Mexico, ENOE 2005–2016.
Employment impacts of alcohol taxes

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ARTICLE INFO

Keywords:
Alcohol taxes
Excise taxes
Sales taxes
Employment

ABSTRACT

There is strong scientific evidence supporting the effectiveness of increasing alcohol taxes for reducing excessive alcohol consumption and related problems. Opponents have argued that alcohol tax increases lead to job losses. However, there has been no comprehensive economic analysis of the impact of alcohol taxes on employment. To fill this gap, a regional macroeconomic simulation model was used to assess the net impact of two hypothetical alcohol tax increases (a 5-cent per drink excise tax increase and a 5% sales tax increase on beer, wine, and distilled spirits, respectively) on employment in Arkansas, Florida, Massachusetts, New Mexico, and Wisconsin. The model accounted for changes in alcohol demand, average state income, and substitution effects. The employment impact of spending the new tax revenue on general expenditures versus health care was also assessed. Simulation results showed that a 5-cent per drink additional excise tax on alcoholic beverages with new tax revenues allocated to general expenditures increased net employment in Arkansas (802 jobs); Florida (4583 jobs); Massachusetts (978 jobs); New Mexico (653 jobs); and Wisconsin (1167 jobs). A 5% additional sales tax also increased employment in Arkansas (789 jobs); Florida (4493 jobs); Massachusetts (898 jobs); New Mexico (621 jobs); and Wisconsin (991 jobs). Using new alcohol tax revenues to fund health care services resulted in slightly lower net increases in state employment. The overall economic impact of alcohol tax increases cannot be fully assessed without accounting for the job gains resulting from additional tax revenues.
Table 3
Simulated impacts of alcohol tax increases on employment (number of jobs) by government revenue allocation in Arkansas, Florida, Massachusetts, New Mexico, and Wisconsin.

<table>
<thead>
<tr>
<th></th>
<th>5-Cent excise tax</th>
<th>5% sales tax</th>
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<tbody>
<tr>
<td>Arkansas</td>
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<tr>
<td>Gross</td>
<td>−323</td>
<td>−408</td>
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<tr>
<td>Net (general revenue)</td>
<td>802</td>
<td>789</td>
</tr>
<tr>
<td>Net (health care sector&lt;sup&gt;a&lt;/sup&gt;)</td>
<td>67</td>
<td>11</td>
</tr>
<tr>
<td>Florida</td>
<td></td>
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<tr>
<td>Gross</td>
<td>−3281</td>
<td>−4042</td>
</tr>
<tr>
<td>Net (general revenue)</td>
<td>4583</td>
<td>4493</td>
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<tr>
<td>Net (health care sector)</td>
<td>1048</td>
<td>687</td>
</tr>
<tr>
<td>Massachusetts</td>
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<tr>
<td>Gross</td>
<td>−1009</td>
<td>−1248</td>
</tr>
<tr>
<td>Net (general revenue)</td>
<td>978</td>
<td>898</td>
</tr>
<tr>
<td>Net (health care sector)</td>
<td>250</td>
<td>121</td>
</tr>
<tr>
<td>New Mexico</td>
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<tr>
<td>Gross</td>
<td>−334</td>
<td>−390</td>
</tr>
<tr>
<td>Net (general revenue)</td>
<td>653</td>
<td>621</td>
</tr>
<tr>
<td>Net (health care sector)</td>
<td>139</td>
<td>98</td>
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<tr>
<td>Wisconsin</td>
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<tr>
<td>Gross</td>
<td>−1078</td>
<td>−1315</td>
</tr>
<tr>
<td>Net (general revenue)</td>
<td>1167</td>
<td>991</td>
</tr>
<tr>
<td>Net (health care sector)</td>
<td>1064</td>
<td>887</td>
</tr>
</tbody>
</table>

<sup>a</sup> Health care sectors consist of health practitioners; outpatient, laboratory, and other ambulatory care services; home health care services; hospitals; and nursing and residential care facilities.
We have strong evidence from around the world that raising taxes on products like tobacco, sugar sweetened beverages and alcohol is highly effective at reducing harmful consumption and saving lives. I’m grateful for the commitment of this impressive group of leaders, whose expertise and experience will help the Task Force bring attention to the enormous potential of fiscal policies for health.”

LARRY SUMMERS

“Noncommunicable diseases are a growing global crisis, especially in low-and-middle income countries. There’s substantial evidence that taxes and fiscal policies are essential to confronting this health threat. This Task Force will explore which policies can make the biggest difference and help them spread, saving millions of lives.”

MIKE BLOOMBERG

The Task Force on Fiscal Policy for Health – announced by Mike Bloomberg and economist Larry Summers, former Secretary of the U.S. Treasury and former Director of the National Economic Council – brings together esteemed fiscal policy, development and health leaders from around the globe to address the enormous and growing health and economic burden of noncommunicable diseases – including cardiovascular disease, cancer, chronic respiratory diseases and diabetes – with fiscal policy tools that are currently underutilized by governments and their leaders.