Fiscal Policy & Health: The Case for Tobacco Taxation

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Overview

• Impact of Tobacco Taxes on Use and Consequences of Tobacco Use

• Tax Structure, Tax Revenues & Earmarking

• Myths and Facts About Economic Impact of Taxes
Taxes, Prices & Tobacco Use
"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.

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

Sources: Euromonitor, World Bank, and Authors’ Calculations

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Adult Smoking Prevalence and Price
Brazil, 2006-2016, inflation adjusted

Source: Ribeiro and Pinto, 2019

% of total survey

% adults (≥ 18 years) smokers.
Consumer Price Index (CPI) - tobacco

index fixed base 2006 = 100
Monthly Quit Line Calls, United States
11/04-11/09

4/1/09 Federal Tax Increase

1/1/08 WI Tax Increase

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Cigarette Prices and Cessation
US States, 2009

\[ y = 0.0283x + 43.083 \]

\[ R^2 = 0.371 \]

Source: BRFSS, *Tax Burden on Tobacco*, 2010, and author’s calculations

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Cigarette Price & Youth Smoking Prevalence
Chile, 2000-2015

Source: Paraje, 2017

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Affordability & Tobacco Use
Adult Smoking Prevalence, Indonesia, 2001-2014

Sources: Euromonitor, EIU, World Bank, and Authors’ Calculations

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Increasing Elasticity with Increasing Price – U.S. TUS-CPS Data

Source: Pesko, et al., 2016
Price & Other Tobacco Product Use

- Consistent evidence on own-price effects
  - Generally find demand for OTP and vaping products more responsive to price than cigarette demand
- Mixed evidence on substitution among various products
  - Greater substitution among more similar products (e.g. cigarettes and other combustibles)
  - Some evidence of substitution between cigarettes and vaping products
  - Weak evidence of complementarity between combustibles and other non-combustibles
France: smoking, tax and male lung cancer, 1980-2010

Source: Jha, in progress
Chapter 4, Conclusion 1:
A substantial body of research, which has accumulated over many decades and from many countries, shows that significantly increasing the excise tax and price of tobacco products is the single most consistently effective tool for reducing tobacco use.
Tax Structure, Tax Revenues & Earmarking Tax Revenues
Excise tax structure: Specific and mixed relying more on the specific component tend to lead to higher prices

Source: WHO 2017 GTCR data; unpublished figure.
Notes: Averages are weighted by WHO estimates of number of current cigarette smokers ages 15+ in each country in 2015; Prices are expressed in Purchasing Power Parity (PPP) adjusted dollars or international dollars to account for differences in the purchasing power across countries. Based on prices as of July 2016 for 53 high-income, 100 middle-income and 27 low-income countries with data on prices of most sold brand, excise and other taxes, and PPP conversion factors.

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Tobacco Taxes and Revenues

South Africa, 1961-2012

Excise tax revenue (Billions of 2012 Rands)

Excise tax per pack (constant 2012 Rands)

Tobacco Taxes and Revenues

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State Tobacco Control Program Funding and Youth Smoking Prevalence, United States, 1991-2009

Year

Total Funding (FY10 dollars)

Percent Current Smoking

Source: ImpacTeen Project, UIC; YRBS

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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”
Oppositional Arguments
Cigarette Taxes as Percent of Retail Price
July 2016

WHO, 2017
Tax Avoidance & Evasion
Tax Avoidance & Evasion Do NOT Eliminate Health Impact of Higher Taxes

NYC Smoking Prevalence Declined as Price Increased

Source: Schroth, 2014
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

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

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Illicit Cigarette Market Share & Cigarette Prices, 2012

y = -0.0076x + 0.1752
R² = 0.0496

Sources: Euromonitor, WHO
Smuggling and Corruption, 2011

y = -0.0131x + 0.2028
R² = 0.0815

Sources: Euromonitor, Transparency International

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Source: HM Revenue & Customs, 2014
Combating Illicit Tobacco Trade

• Illicit trade protocol to the WHO FCTC
  – Entered into force September 2018
  – 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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Impact on the Poor
Tobacco & 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

Income increases

Youth and women start smoking and men smoke more

Higher prevalence and consumption level

Family falls into poverty

Vicious Cycle of Tobacco and 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
    • Reduced health care spending, increased productivity, higher incomes
Who Pays & Who Benefits
Turkey, 25% Tax Increase

Source: Adapted from Önder & Yürekli, 2014

Change in Consumption
Change in Taxes Paid
Who Pays & Who Benefits
Chile, 25% Tax Increase

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: Fuchs, et al., 2017

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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

• 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
Incremental Revenues for Health and the Poor, Philippines, 2001-2016

Department of Health Budget, Billion Pesos

Allocation for Health Insurance Premiums for the Poor, Billion Pesos

Source: Adapted from Jeremias Paul, 2017
Impact on the Economy
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

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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
Summary
Conclusions

• Higher tobacco taxes significantly reduce consumption and raise new revenue

• Reduced consumption leads to fewer cases of cancer, cardiovascular disease, diabetes, and other diseases, reducing health care and other economic costs of NCDs

• Counterarguments about negative economic impact false or greatly overstated

• Tobacco tax increases considered one of the “best buys” in NCD prevention
THANK YOU!

For more information:

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