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Economic Research Informing Tobacco Control Policy

Fiscal Policy & Health: The Case for Tobacco Taxation

Frank J. Chaloupka, University of Illinois at Chicago

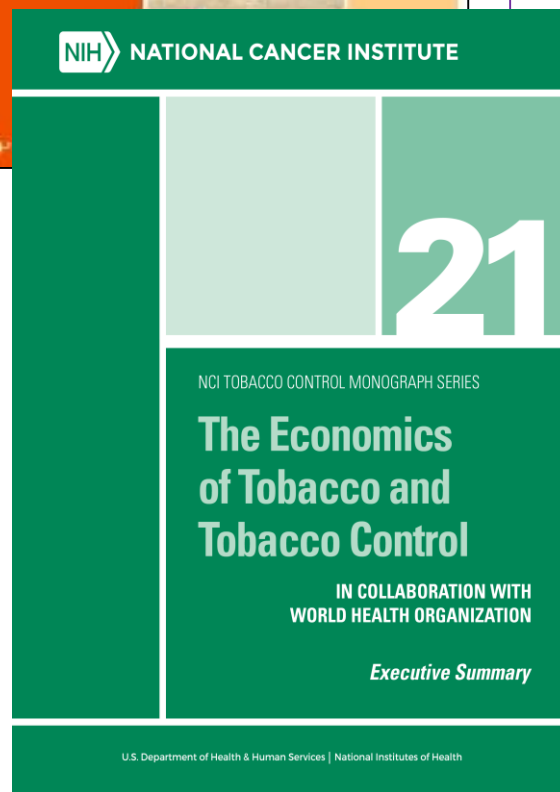
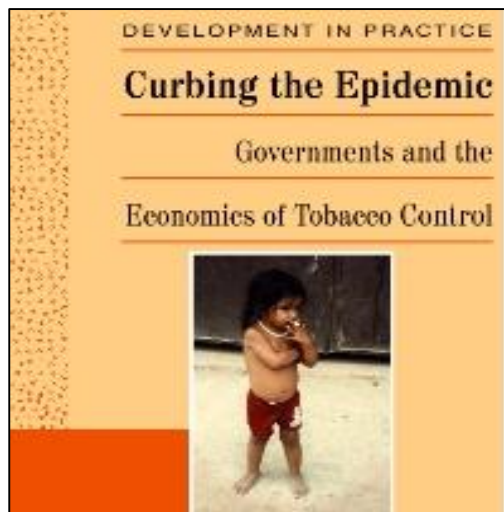
Taxbacco for Good Living Seminar

InterAmerican Development Bank

Washington DC, 22 May 2019

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



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Using Fiscal Policy to Promote Health: Taxing Tobacco, Alcohol, and Sugary Beverages

Prepared for the Task Force on Fiscal Policy for Health, March 2018

By Frank J. Chaloupka and Lisa M. Powell

"Sugar, rum, and tobacco, are commodities which are no where necessities of life, which are become objects of almost universal consumption, and which are therefore extremely proper subjects of taxation."

Adam Smith, *The Wealth of Nations*, 1776⁷

I. Introduction

Non-communicable diseases (NCDs) impose enormous economic costs, in addition to their impact on public health. The World Economic Forum recently called NCDs "a real threat not only to human health but to global prosperity," with the cumulative direct and indirect economic costs of NCDs, during the period 2016-2030, estimated at \$140 trillion.⁸ The health and economic burden of NCDs has increasingly shifted from high-income countries (HICs) to low- and middle-income countries (LMICs).⁹ The threat of NCDs to development resulted in the United Nation's Agenda for Sustainable Development to include a commitment from governments to reduce the premature mortality from NCDs by one-third by 2030.¹⁰

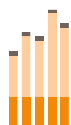
While there are a variety of factors explaining the rise in NCDs, from ageing populations to increased urbanization and industrialization, a key factor is the increased adoption of unhealthy lifestyles that often accompanies economic development.¹¹ Of note are the increases in tobacco use, excessive drinking, and consumption of highly processed foods and beverages, particularly sugary beverages, that follow increases in incomes in LMICs.¹²

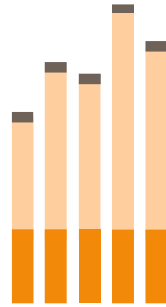
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Health Taxes to Save Lives

Employing Effective Excise Taxes on Tobacco, Alcohol, and Sugary Beverages

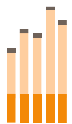
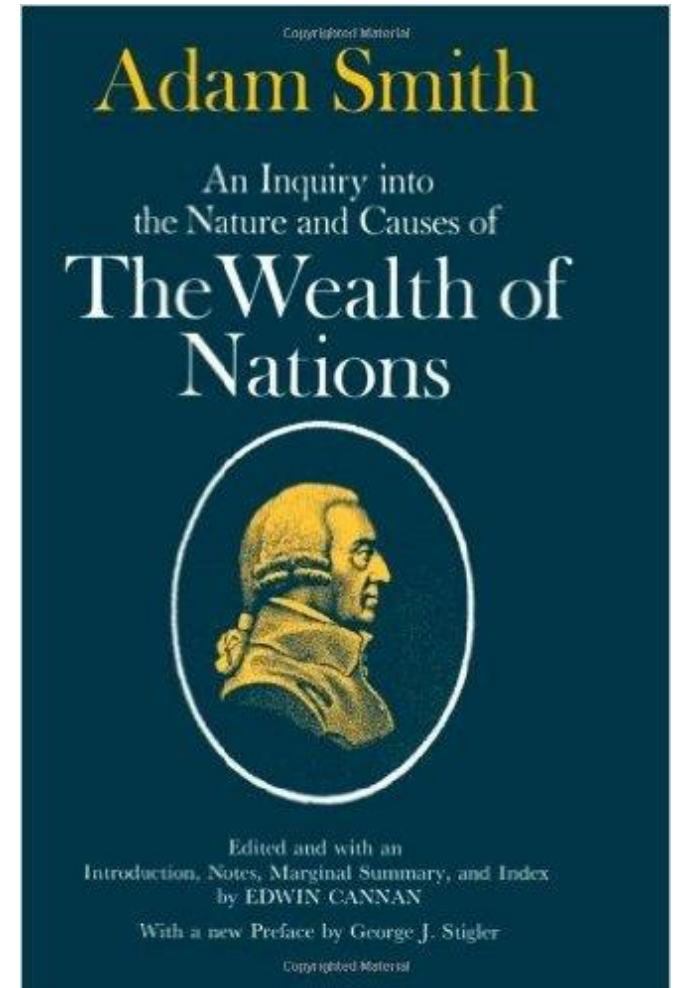
The Task Force on Fiscal Policy for Health
April 2019





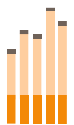
Taxes, Prices & Tobacco Use

" Sugar, rum, and tobacco, are commodities which are no where necessaries of life, which are become objects of almost universal consumption, and which are therefore **extremely proper subjects of taxation.**



Cigarette Sales and Prices

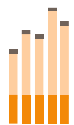
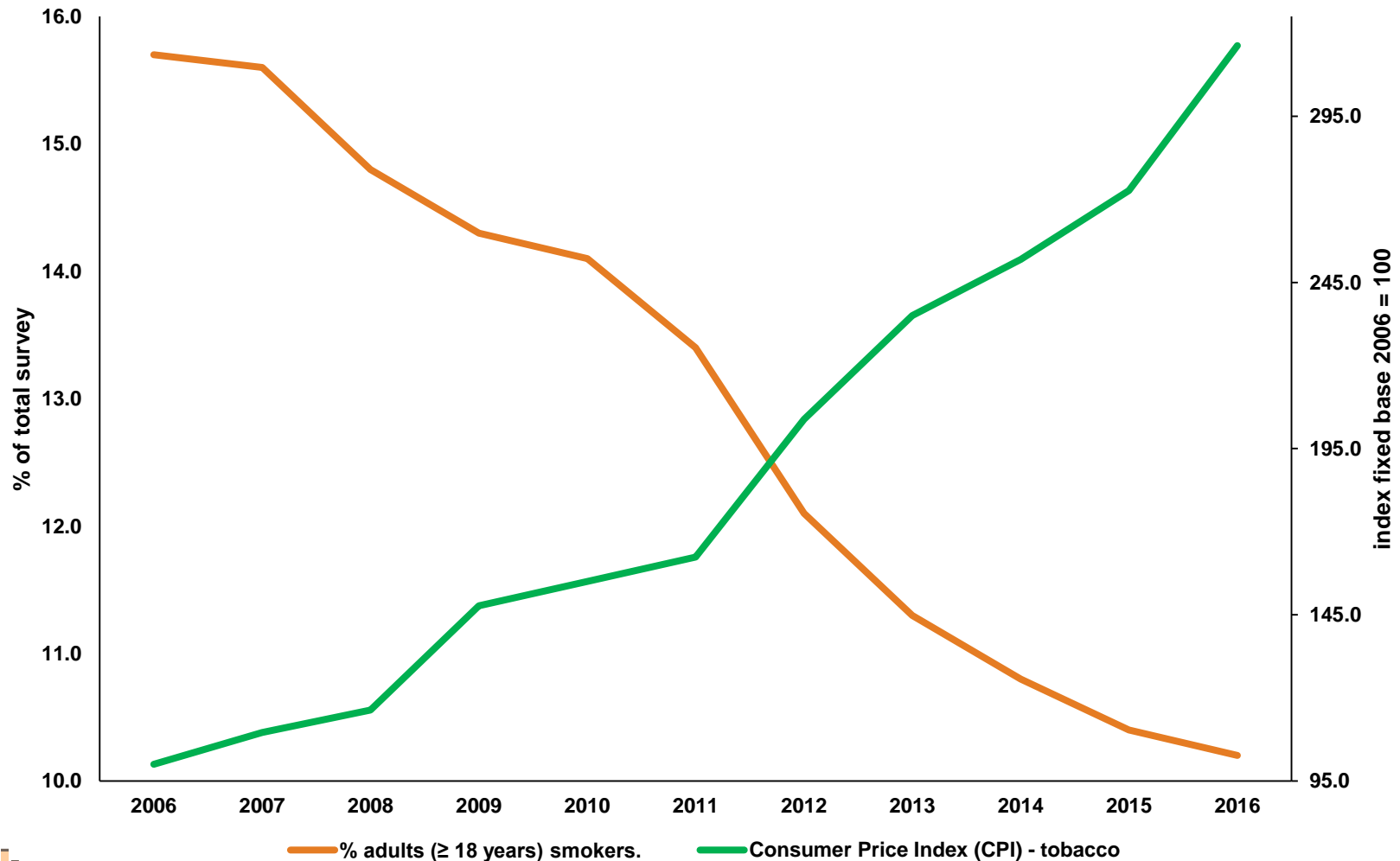
Philippines, 2002-2016, Inflation Adjusted



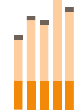
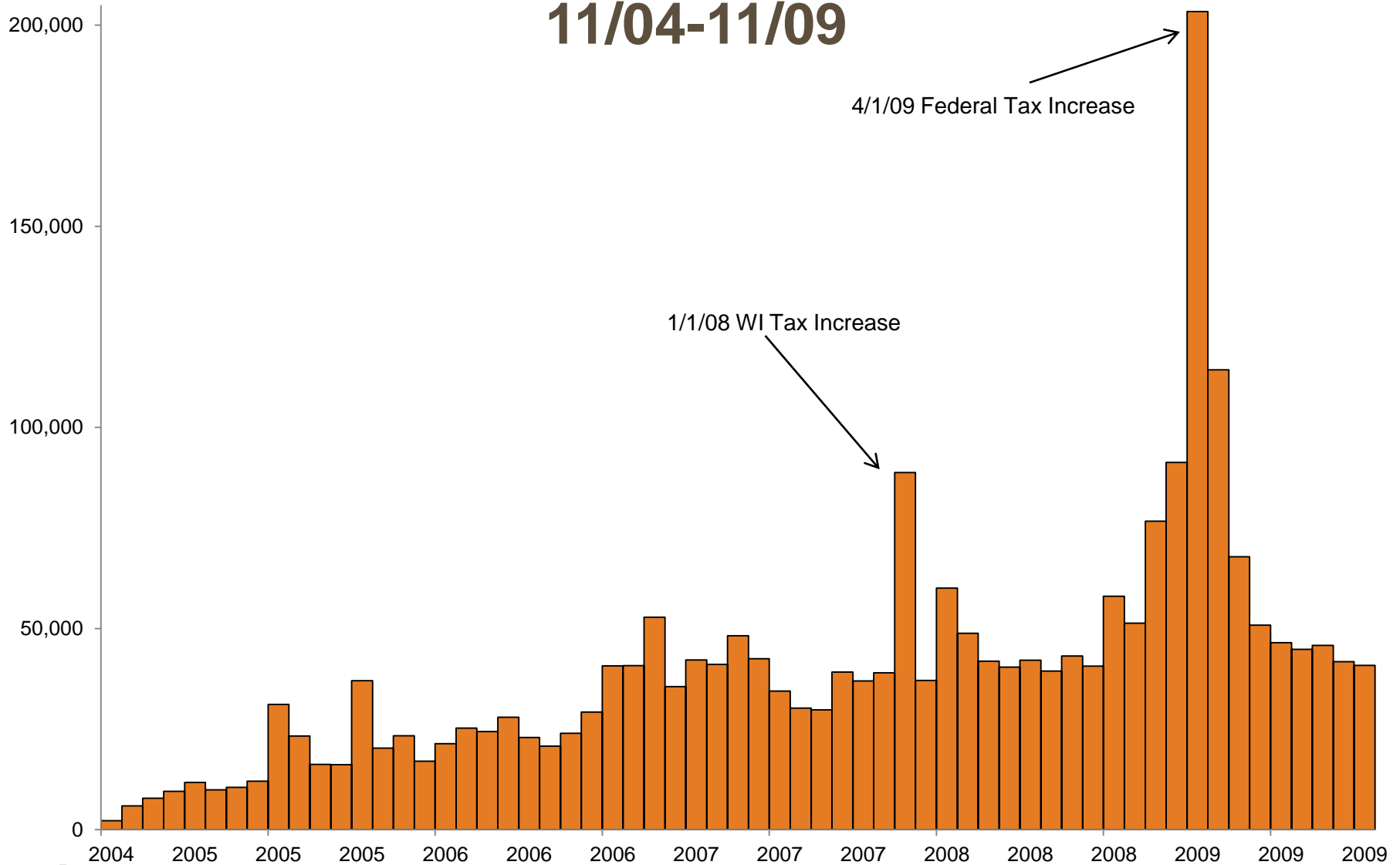
Sources: Euromonitor, World Bank, and Authors' Calculations

Adult Smoking Prevalence and Price

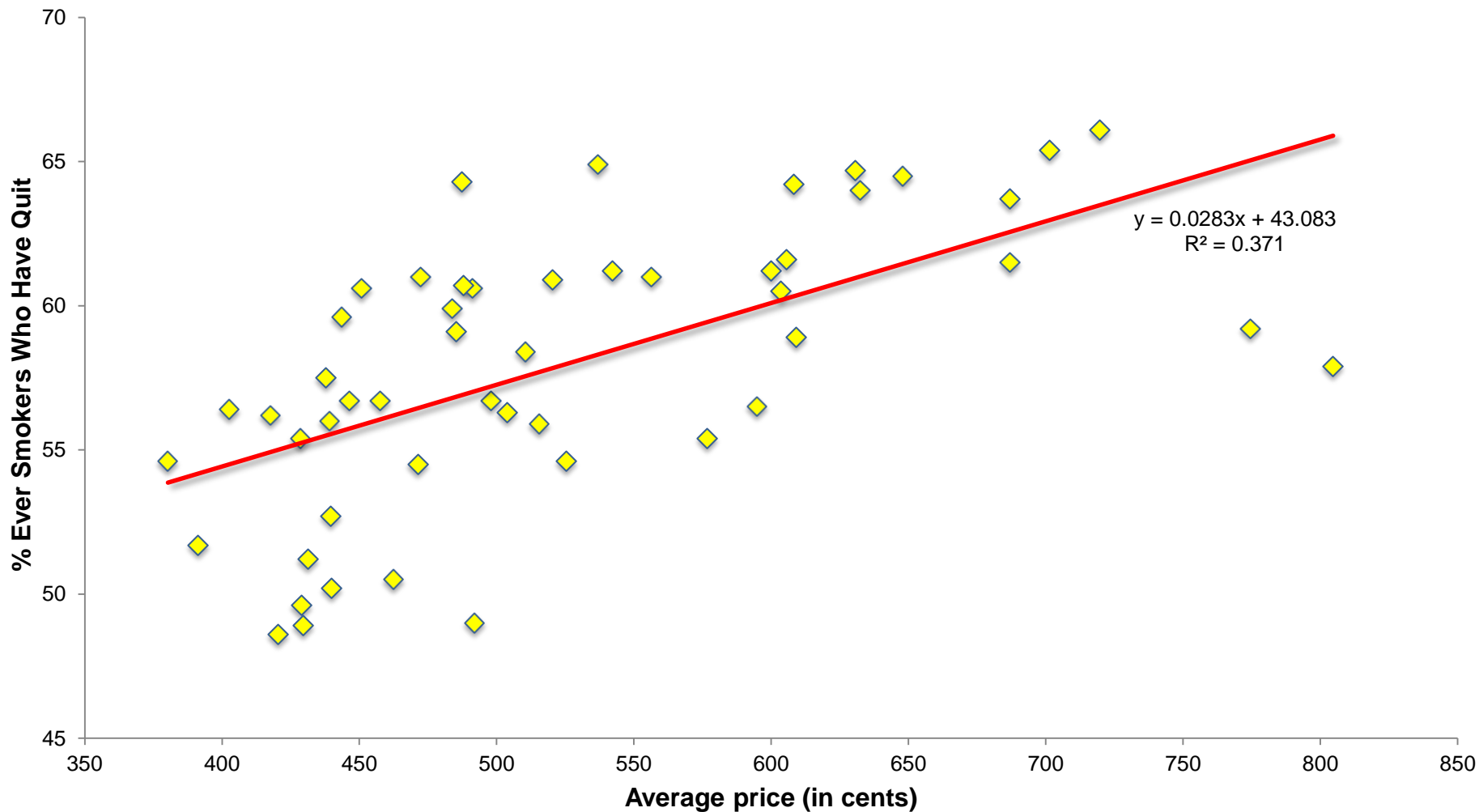
Brazil, 2006-2016, inflation adjusted



Monthly Quit Line Calls, United States 11/04-11/09

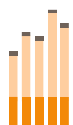


Cigarette Prices and Cessation US States, 2009

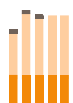
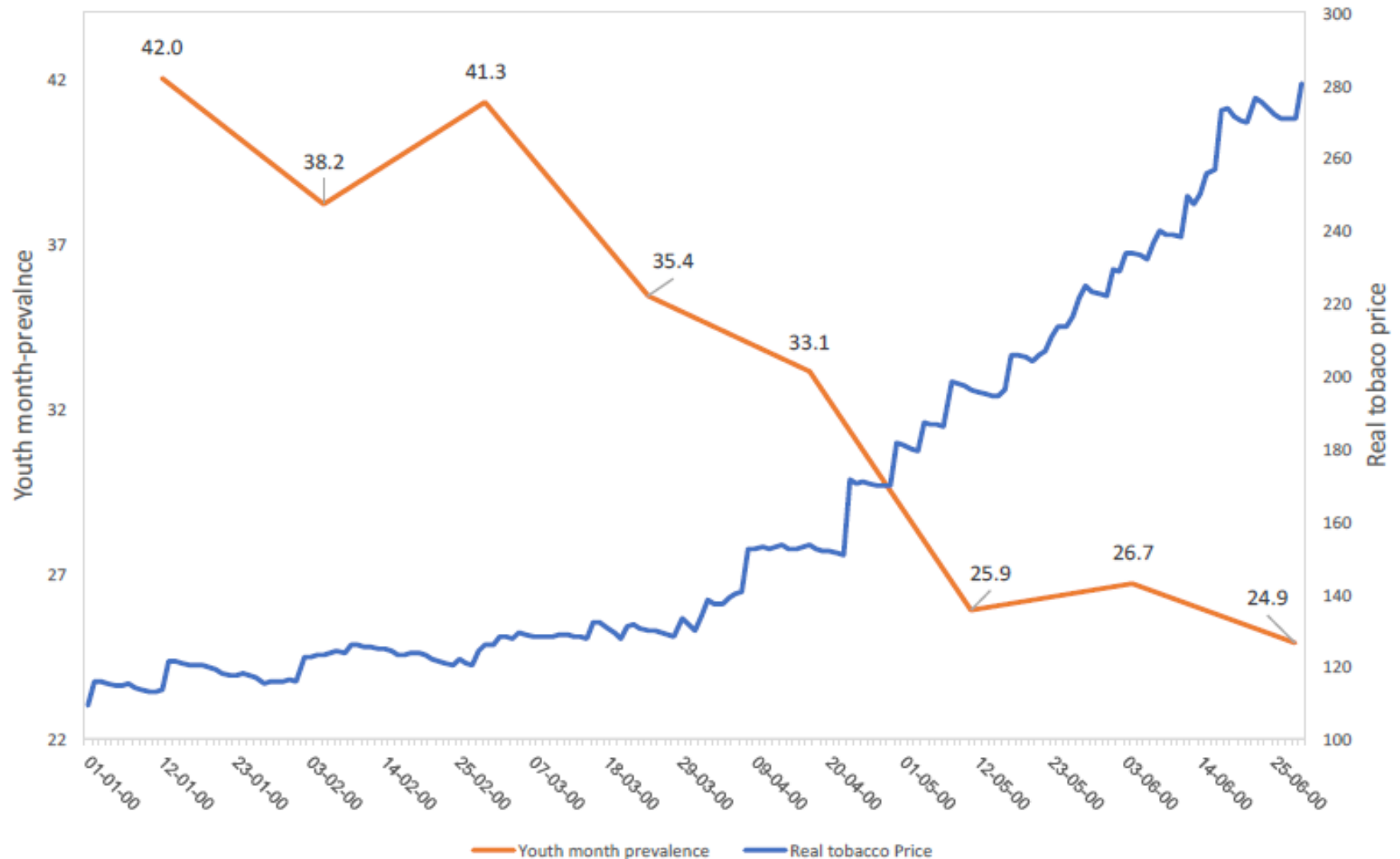


Source: BRFSS, *Tax Burden on Tobacco*, 2010, and author's calculations

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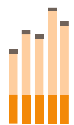
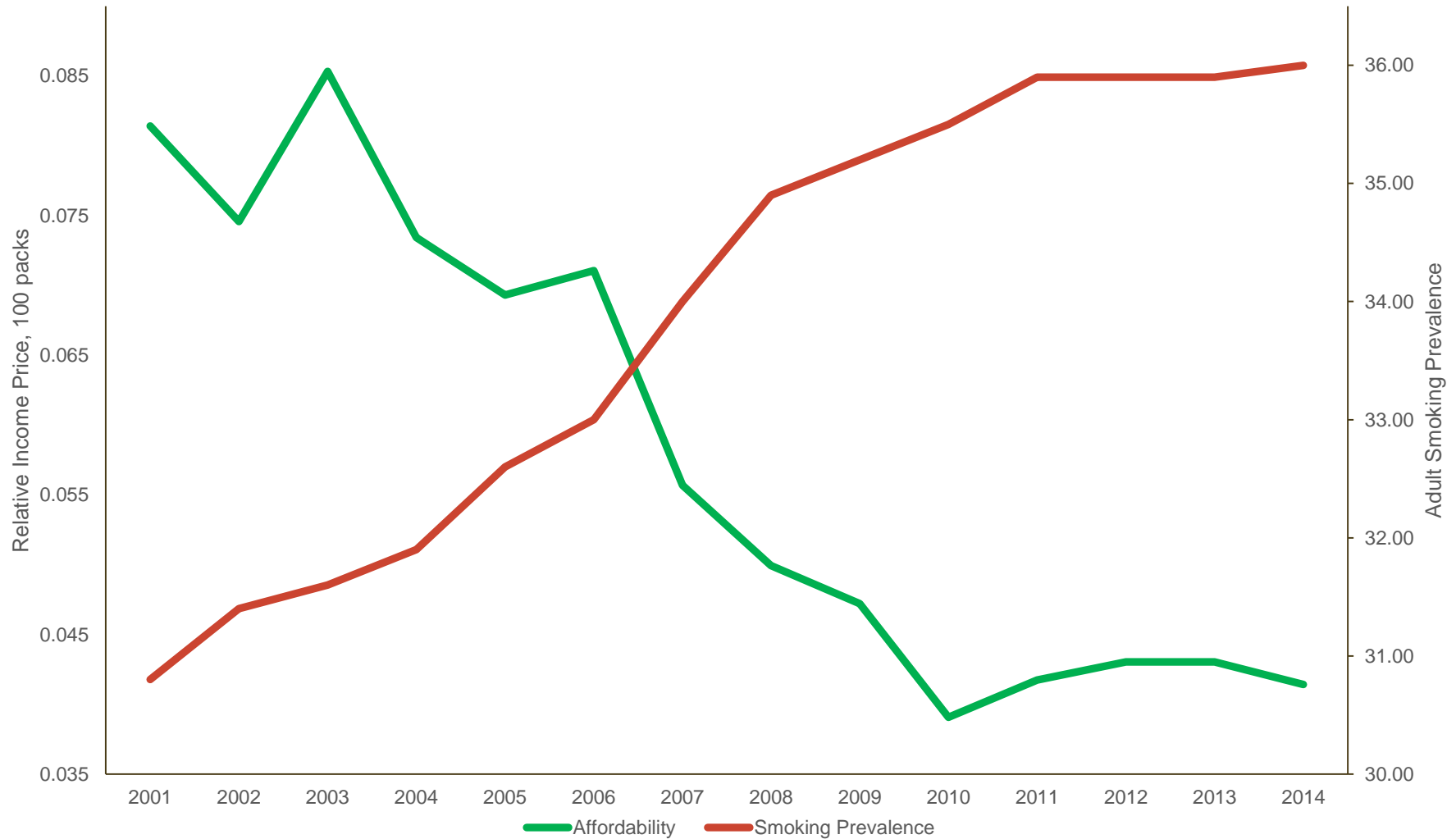


Cigarette Price & Youth Smoking Prevalence Chile, 2000-2015



Affordability & Tobacco Use

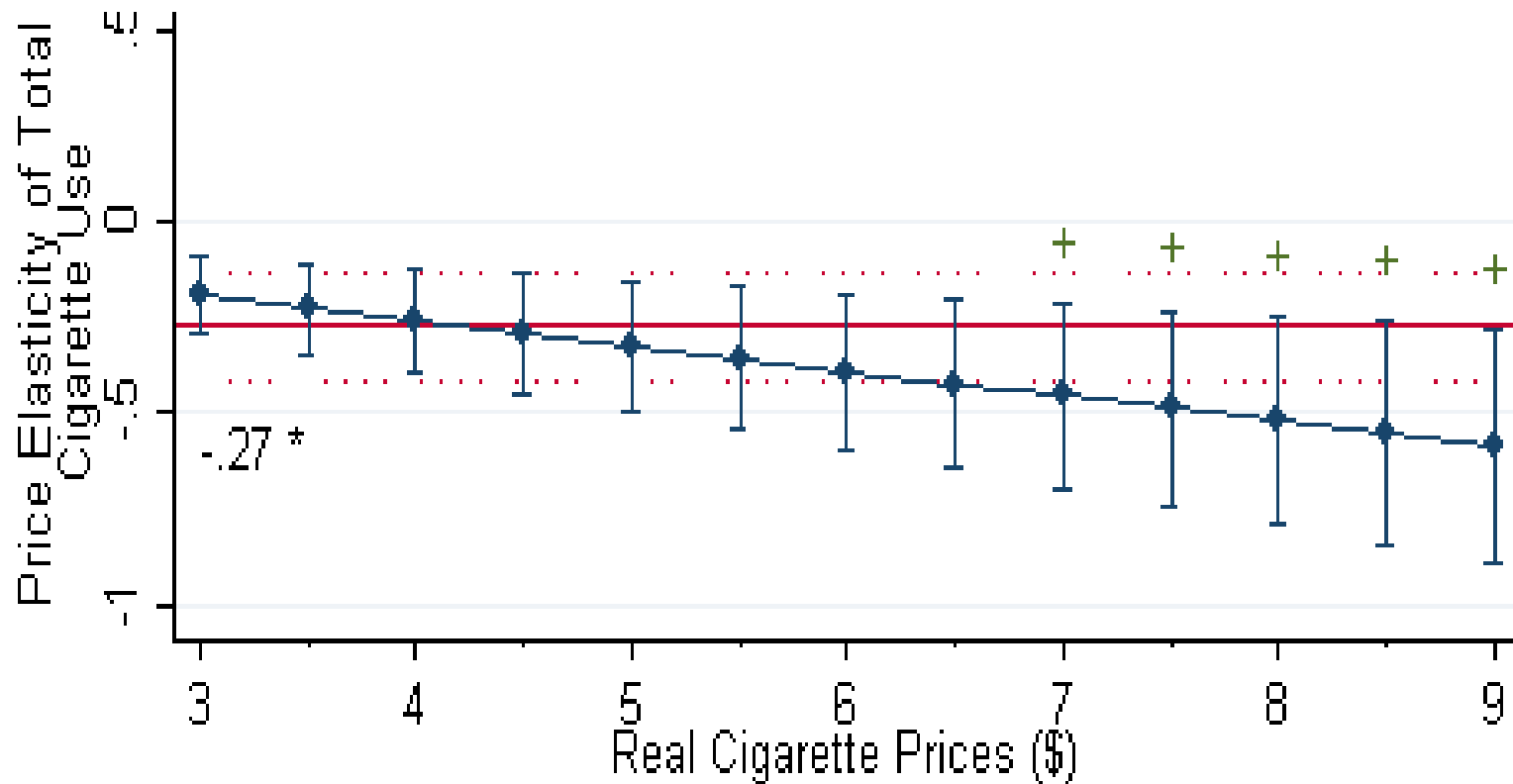
Adult Smoking Prevalence, Indonesia, 2001-2014



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

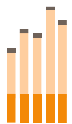
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Increasing Elasticity with Increasing Price – U.S. TUS-CPS Data

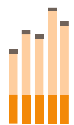
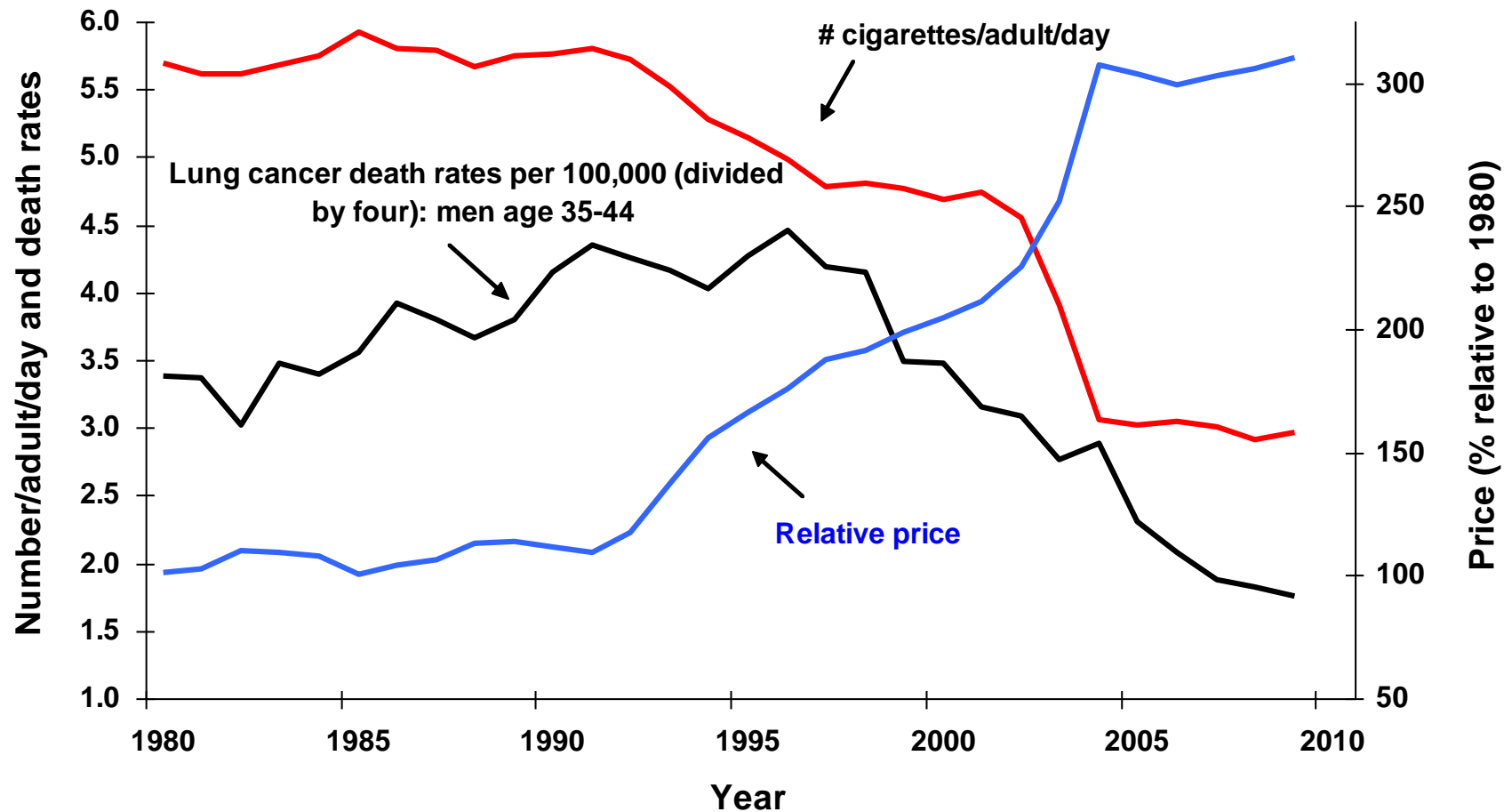


Price & Other Tobacco Product Use

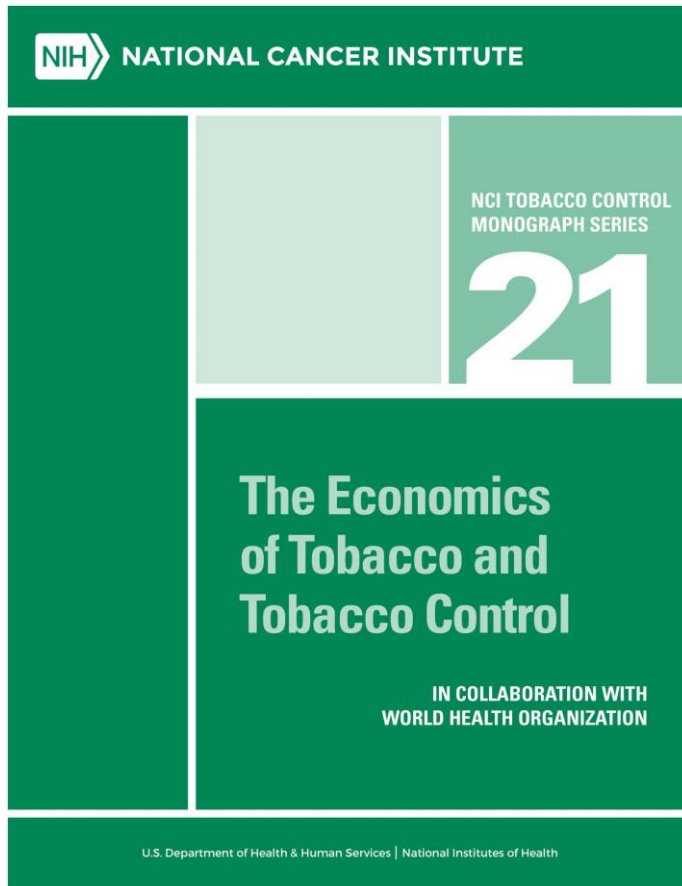
- Consistent evidence on own-price effects
 - Generally find demand for OTP and vaping products more responsive to price than cigarette demand
- Mixed evidence on substitution among various products
 - Greater substitution among more similar products (e.g. cigarettes and other combustibles)
 - Some evidence 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

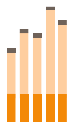


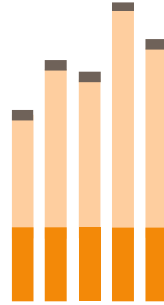
Effectiveness of Tobacco Taxes



Chapter 4, Conclusion 1:

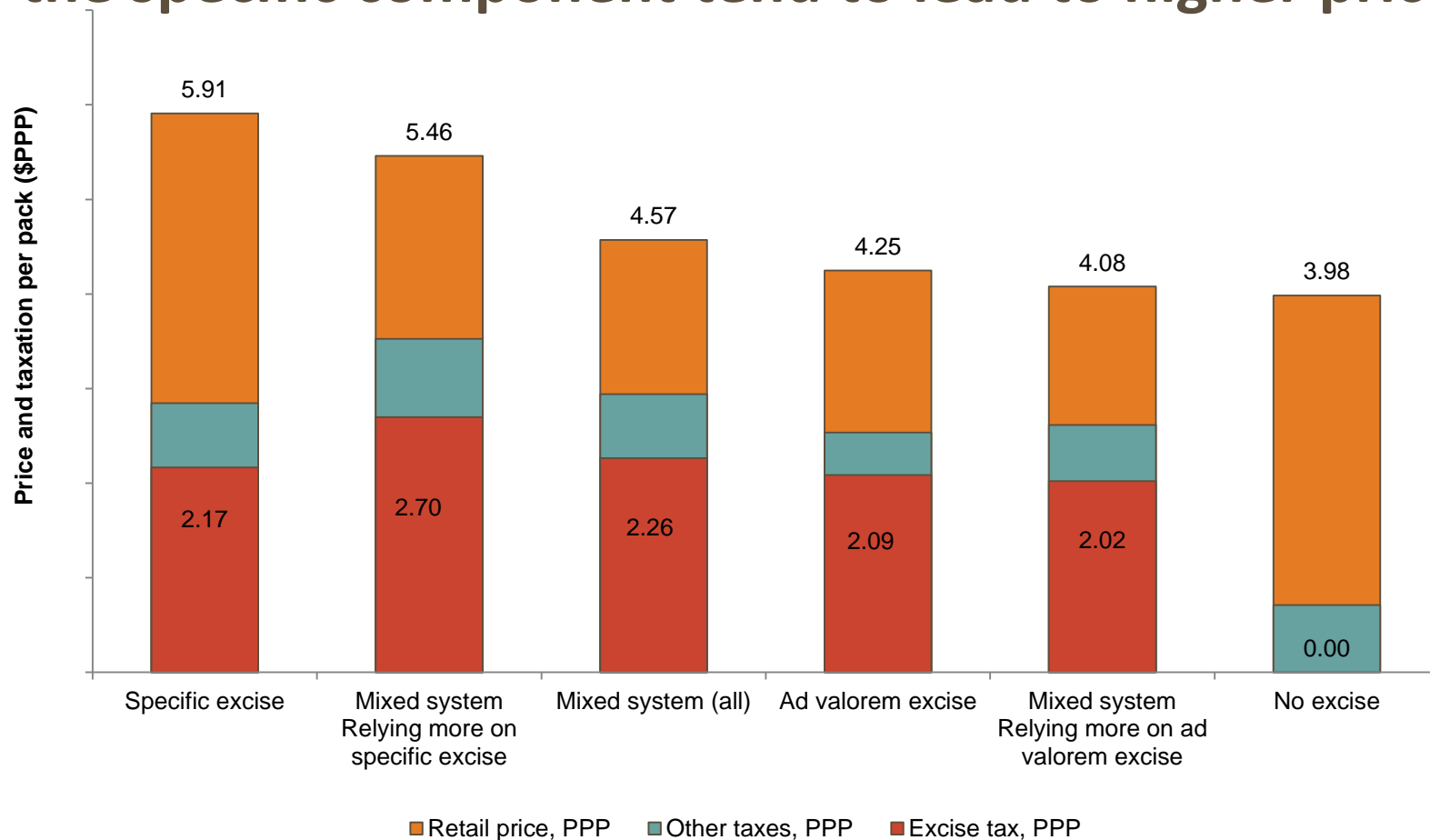
A substantial body of research, which has accumulated over many decades and from many countries, shows that **significantly increasing the excise tax and price of tobacco products is the single most consistently effective tool for reducing tobacco use.**





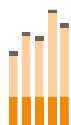
Tax Structure, Tax Revenues & Earmarking Tax Revenues

Excise tax structure: Specific and mixed relying more on the specific component tend to lead to higher prices



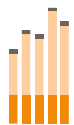
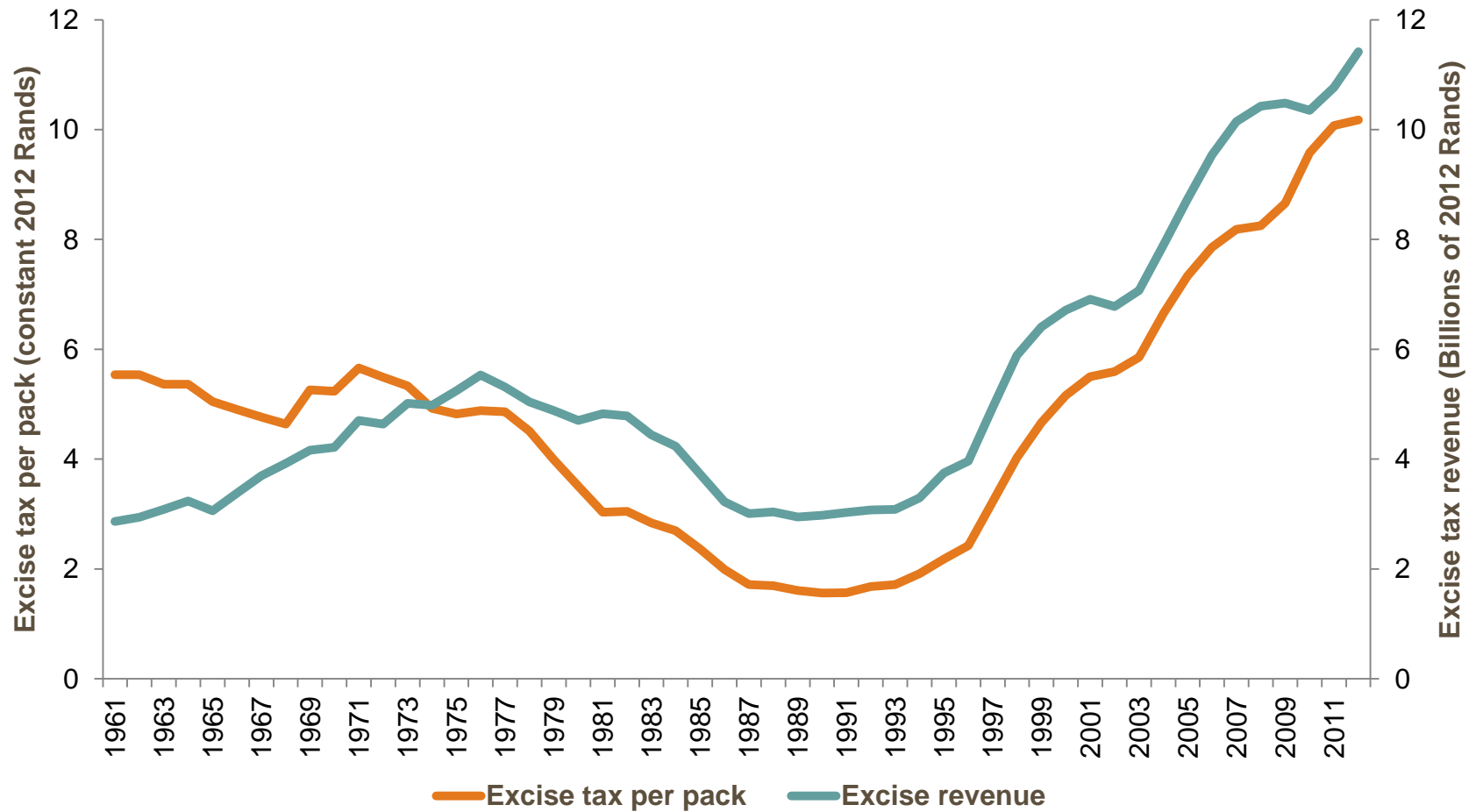
Source: WHO 2017 GTCR data; unpublished figure.

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.



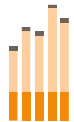
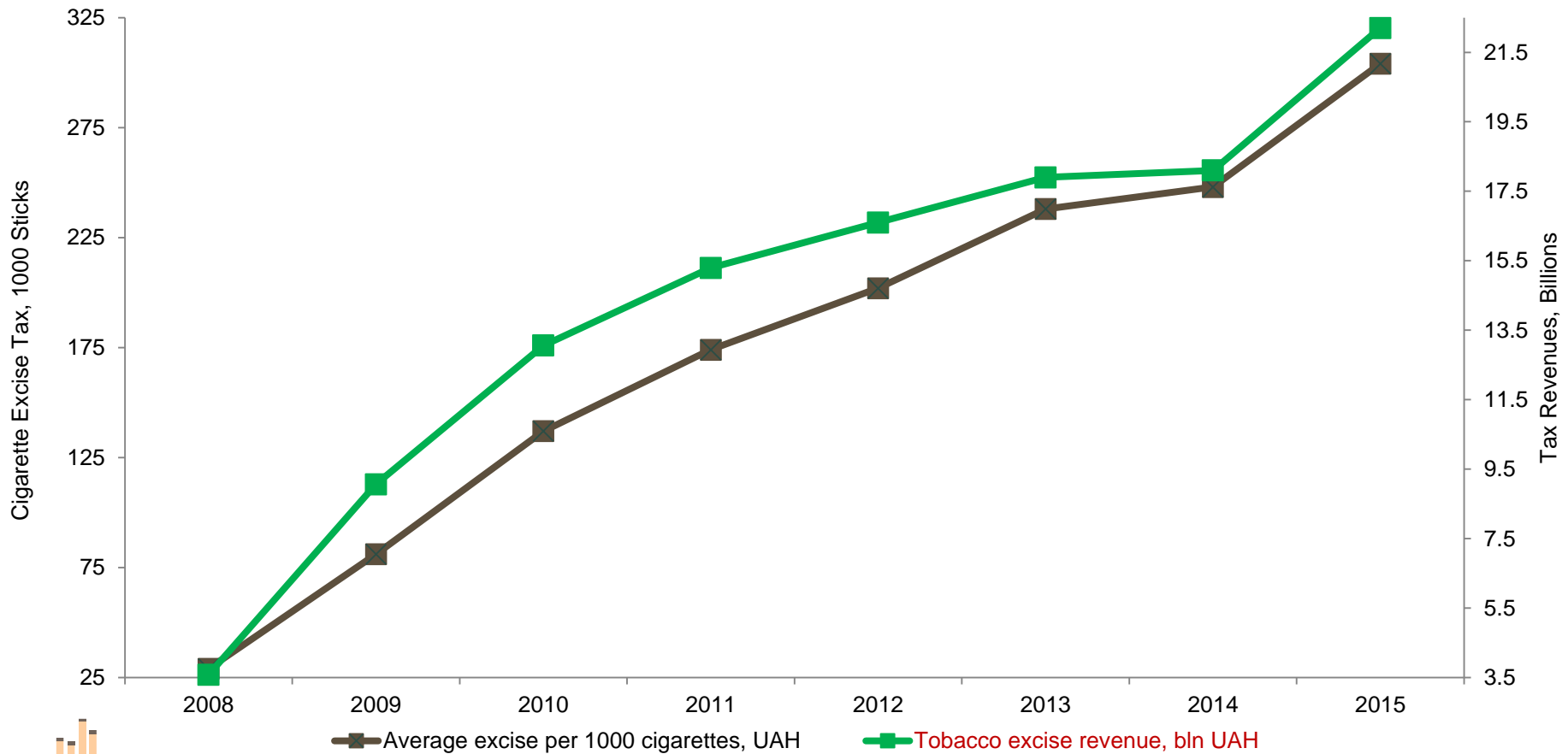
Tobacco Taxes and Revenues

South Africa, 1961-2012

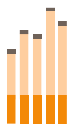


Cigarette Tax and Tax Revenues Ukraine: 2008-2015

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



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



Source: ImpacTeen Project, UIC; YRBS

Tobacco Taxes and Revenues

- The Addis Ababa Action Agenda states:

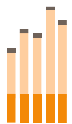
“... price and tax measures on tobacco can be an effective and important means to reduce tobacco consumption and health-care costs, and represent a revenue stream for financing development in many countries”

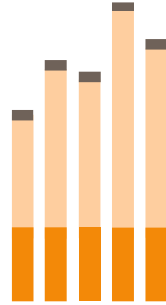


**FINANCING FOR
DEVELOPMENT**

13-16 JULY 2015 • ADDIS ABABA • ETHIOPIA

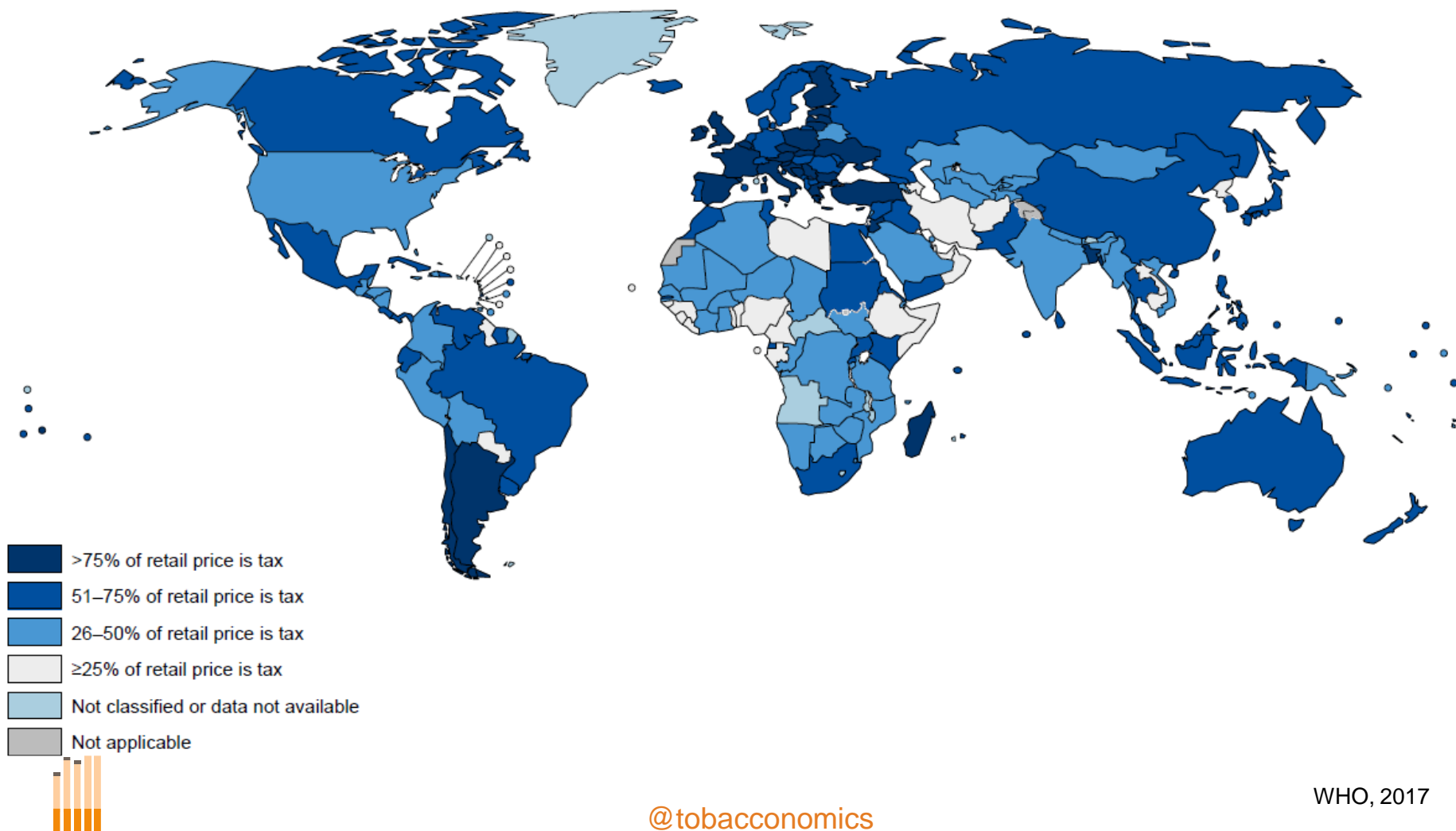
TIME FOR GLOBAL ACTION

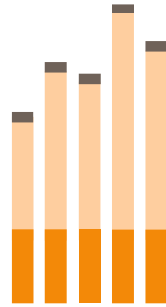




Oppositional Arguments

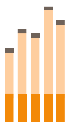
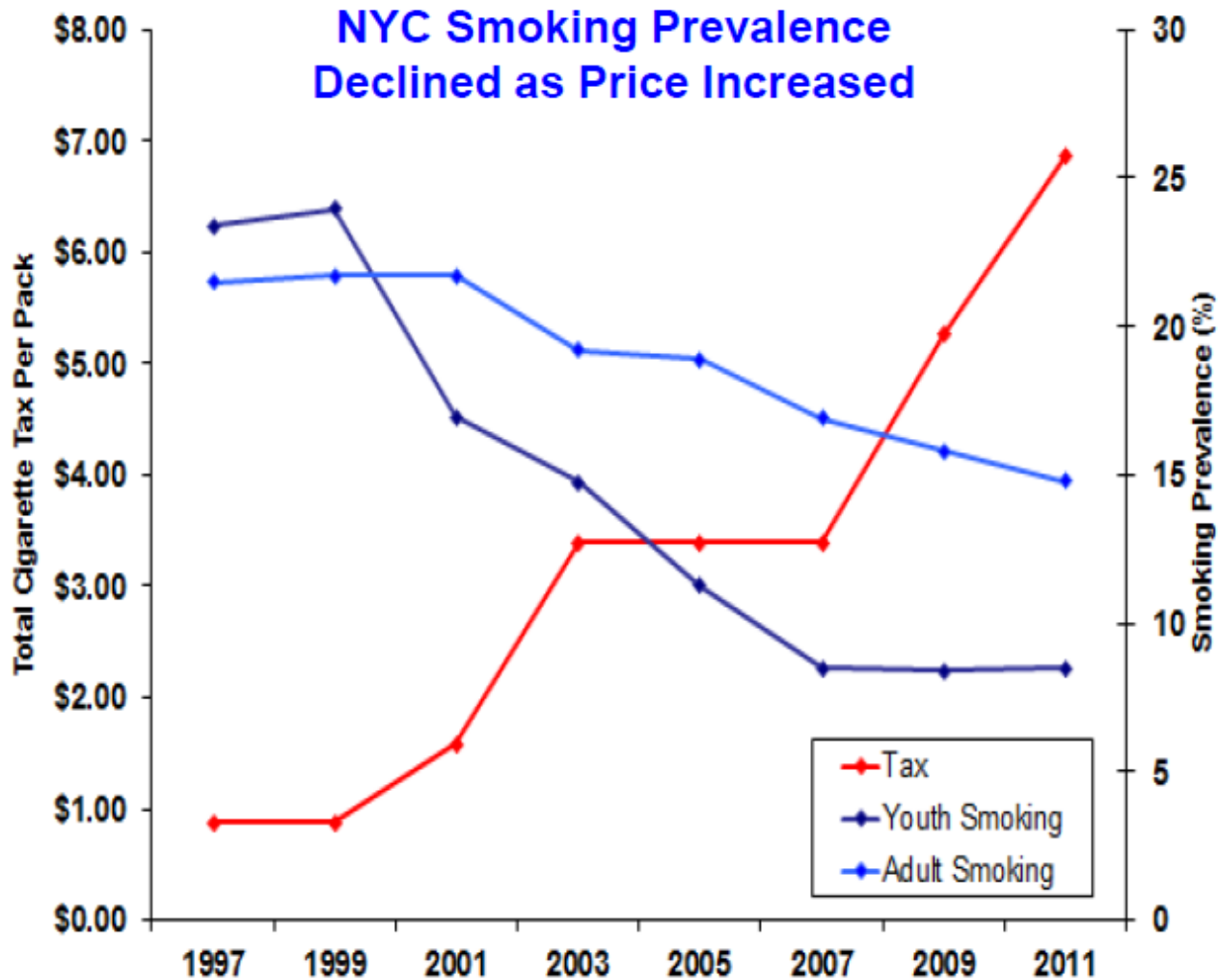
Cigarette Taxes as Percent of Retail Price July 2016





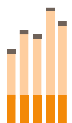
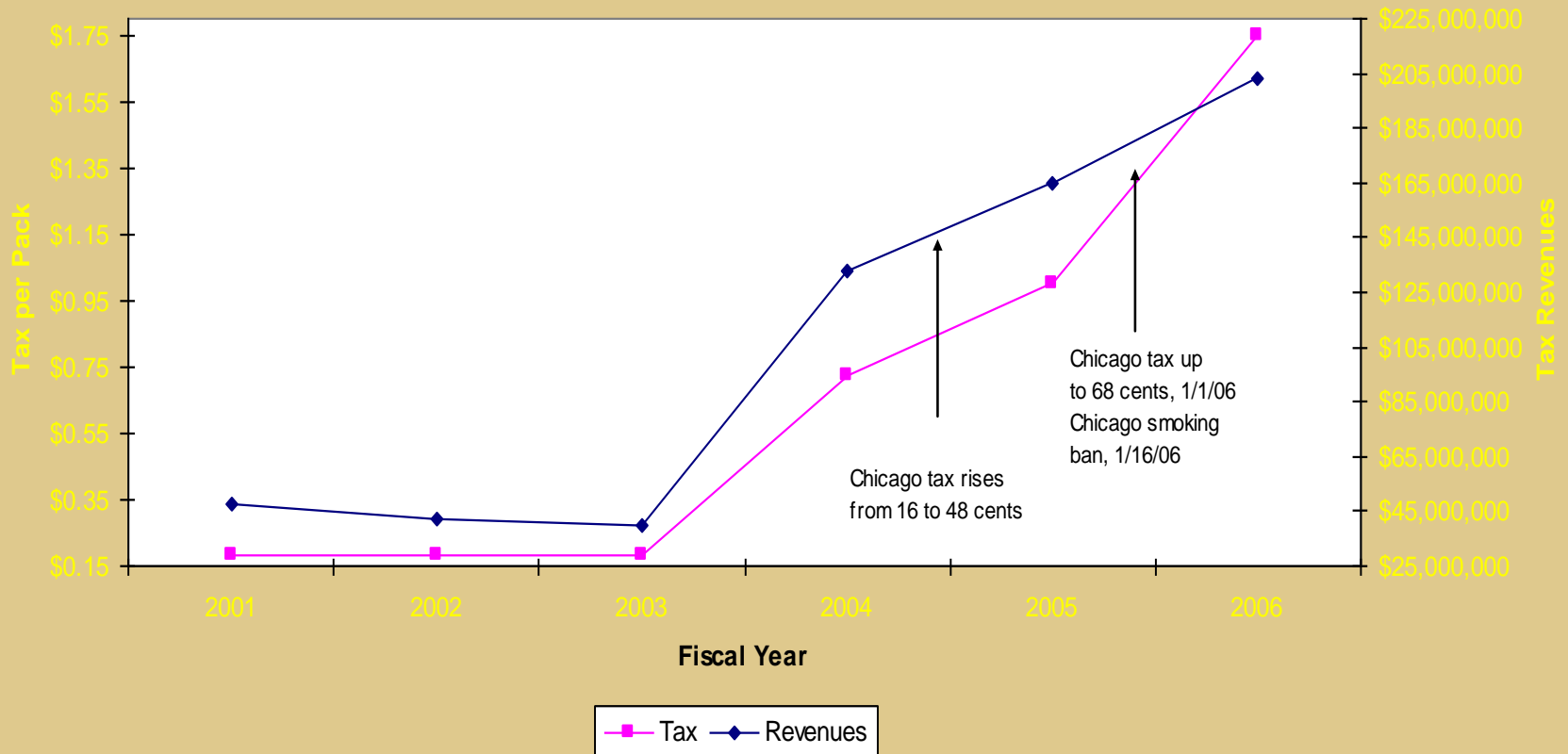
Tax Avoidance & Evasion

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

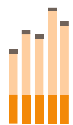
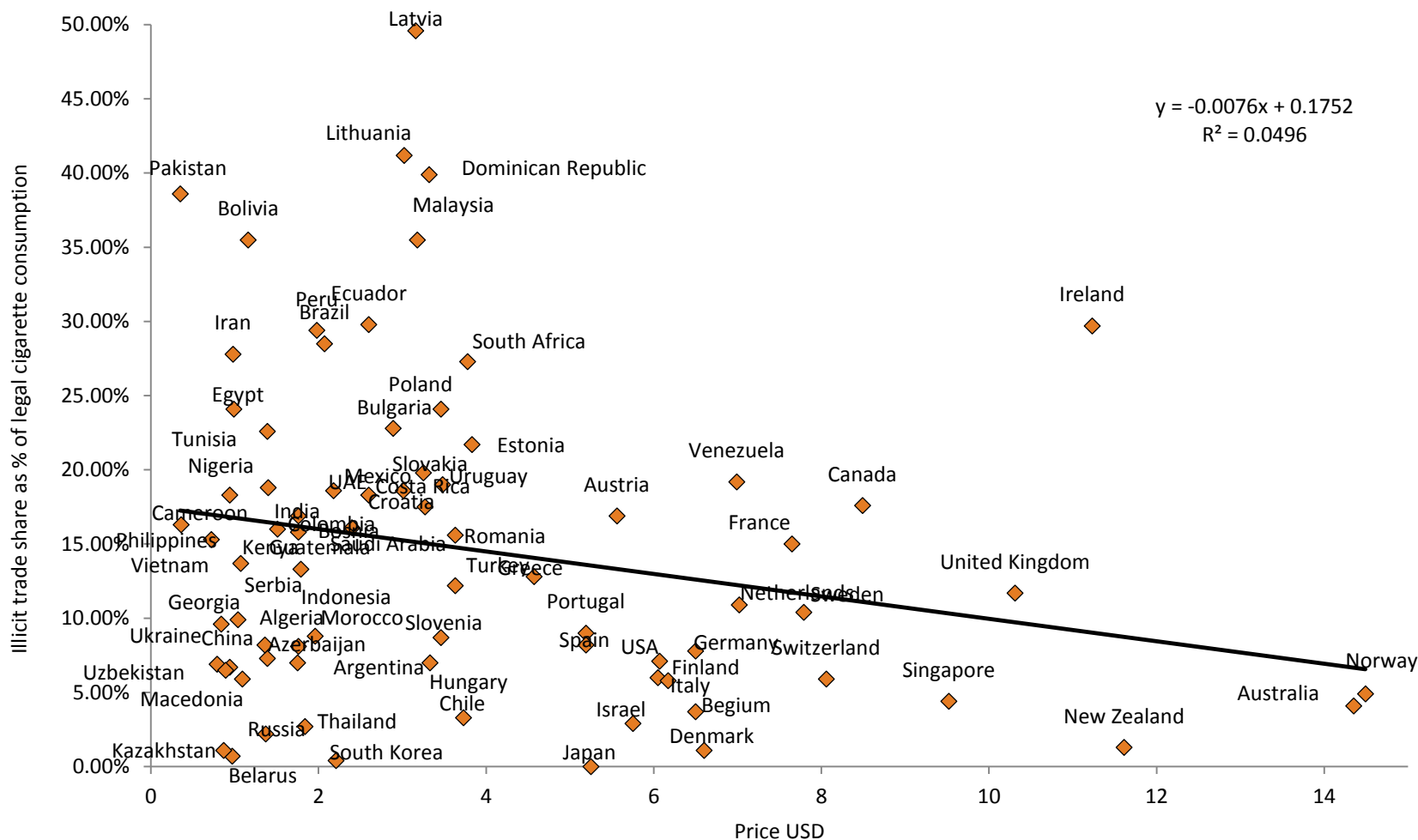


Tax Avoidance & Evasion Do NOT Eliminate Revenue Impact of Higher Taxes

Cook County Cigarette Tax and Tax Revenues - FY01-FY06



Illicit Cigarette Market Share & Cigarette Prices, 2012



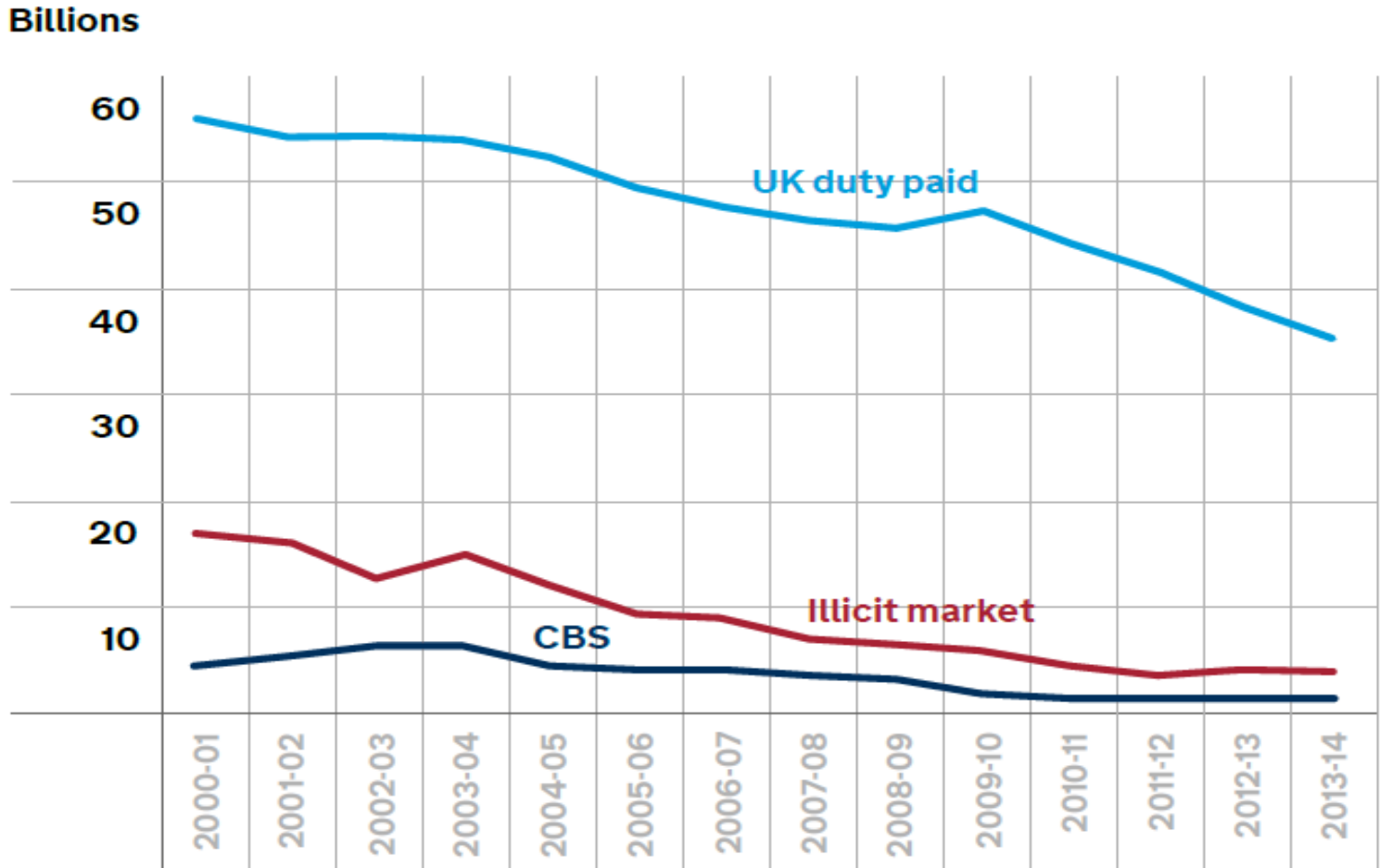
Smuggling and Corruption, 2011



Sources: Euromonitor, Transparency International



Estimated Volumes of Cigarettes Consumed in the U.K. – Duty paid, illicit, and cross-border shopping, 2000-01 – 2013-14

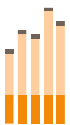


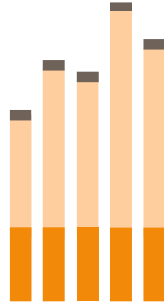
Source: HM Revenue & Customs, 2014



Combating Illicit Tobacco Trade

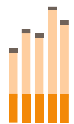
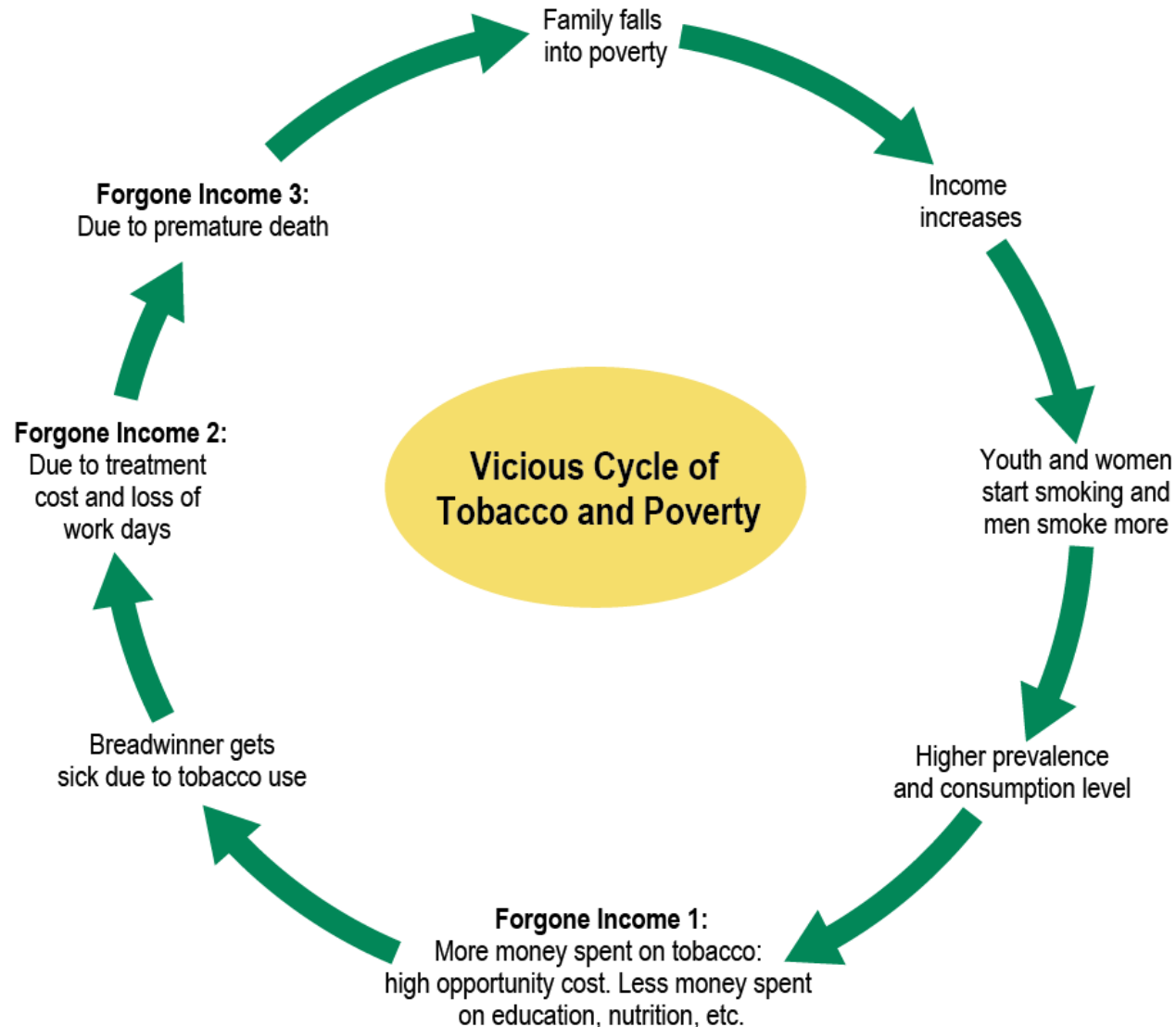
- Illicit trade protocol to the WHO FCTC
 - Entered into force September 2018
 - Provisions calling for:
 - Strong tax administration
 - Prominent, high-tech tax stamps and other pack markings
 - Licensing of manufacturers, exporters, distributors, retailers
 - Export bonds
 - Unique identification codes on packages
 - Better enforcement
 - Increased resources
 - Focus on large scale smuggling
 - Swift, severe penalties
 - Multilateral/intersectoral cooperation





Impact on the Poor

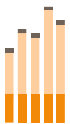
Tobacco & Poverty



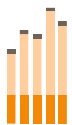
Source: NCI & WHO 2016

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



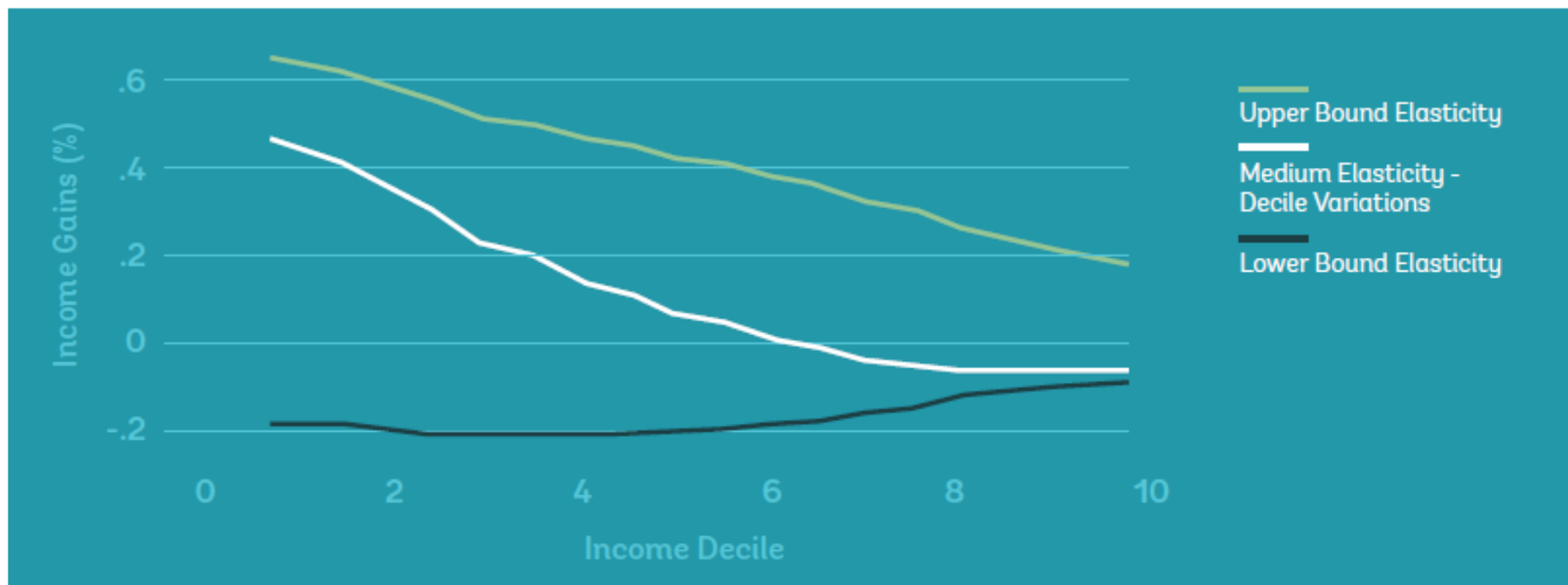
Who Pays & Who Benefits Turkey, 25% Tax Increase



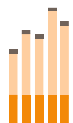
Source: Adapted from Önder & Yürekli, 2014

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)



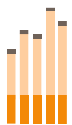
Source: Author's estimation using a price shock of 25%



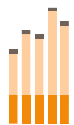
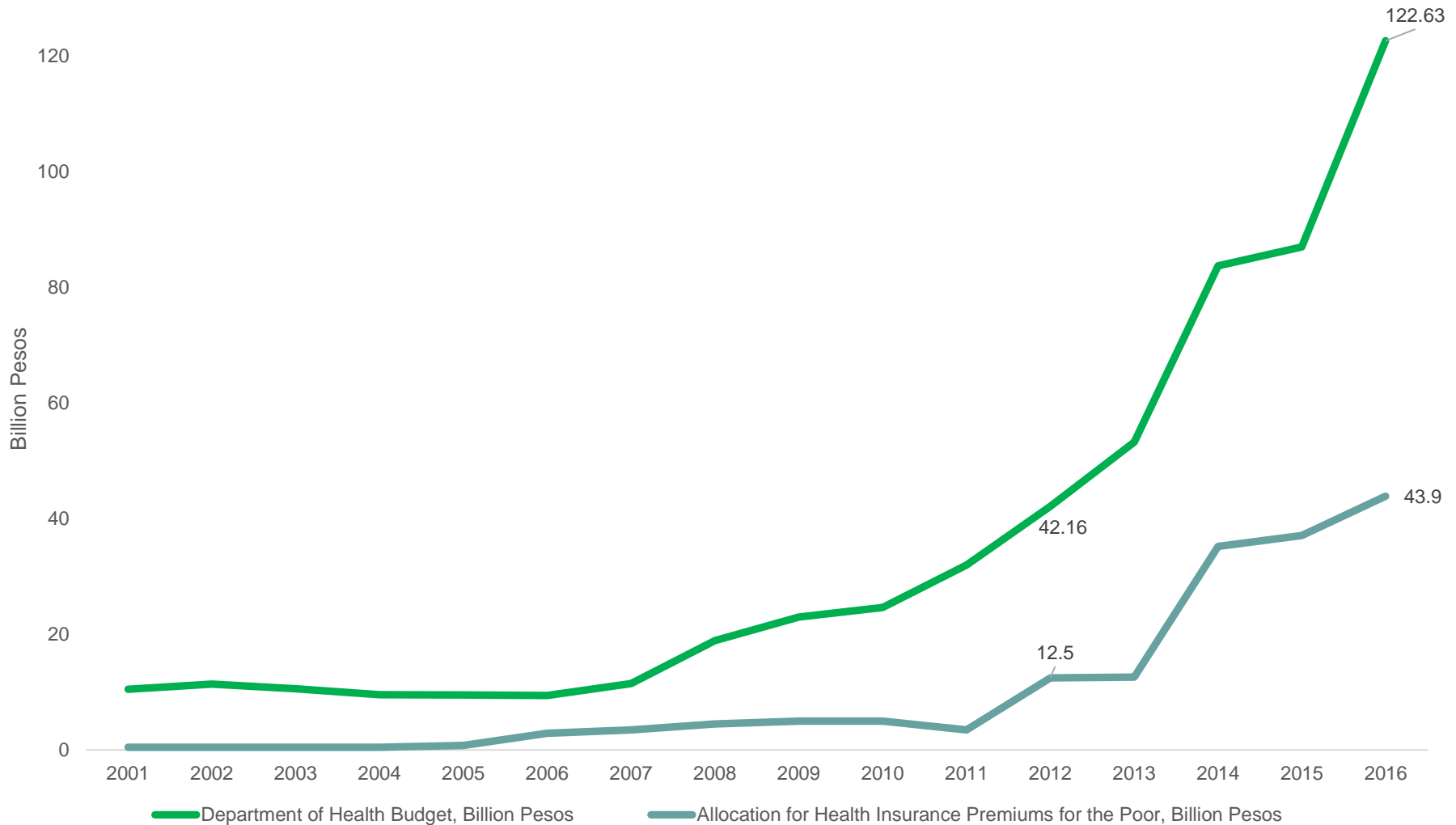
Impact on the Poor

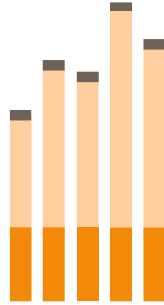
Need to consider overall fiscal system

- 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



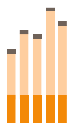


Impact on the Economy

Excise Taxes and Jobs

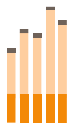
Industry-sponsored studies tell only part of story:

- 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

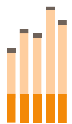
- Many published studies assess impact of reductions in tobacco use from tax increases and/or other tobacco control measures:
 - Variety of high, middle, and low income countries
 - Use alternative methodologies
- Generally find that employment losses in tobacco sector more than offset by gains in other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

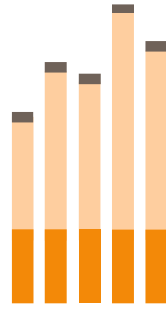


Tobacco Taxes and Jobs

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

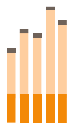




Summary

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:

Bridging the Gap

www.bridgingthegapresearch.org

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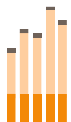
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Economic Research Informing Tobacco Control Policy

Policy Brief | August 2018

Tobacco Taxation Can Reduce Tobacco Consumption and Help Achieve Sustainable Development Goals

Introduction

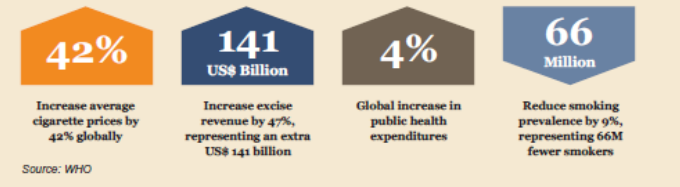
A substantial body of research shows that significantly increasing the taxes and prices of tobacco products is the single most effective way to reduce tobacco use and its devastating health consequences.ⁱ A tax increase that raises prices by 10% can reduce tobacco consumption on average by 5% in low and middle income countries (LMICs).ⁱⁱ

Tobacco also poses a threat to development, especially in the LMICs that have the highest rates of tobacco use. The global economic costs from smoking due to medical expenses and lost productivity in 2012 alone totaled over \$1.4 trillion dollars.ⁱⁱⁱ

Besides the growing recognition of the obvious harmful effects of tobacco on health and healthcare, there is a noticeable international movement recognizing the harmful effects of

tobacco use on sustainable development. The United Nations (UN) 2030 Agenda for Sustainable Development has set 17 Sustainable Development Goals (SDGs) and 169 related targets. One of those targets focuses specifically on tobacco, and urges “strengthened implementation of the Framework Convention on Tobacco Control (FCTC).” The FCTC is an international treaty created under the auspices of the World Health Organization (WHO). It focuses on reducing the demand and supply of tobacco products. In order to finance the SDGs, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development noted that “price and tax measures on tobacco can be an effective and important means to reduce tobacco consumption and healthcare costs and represent a revenue stream for financing for development in many countries”.

Raising tobacco excise tax by 1 International Dollar (about US\$ 0.80) in all countries would:



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