

*This policy brief is based on a research study entitled ‘The Impact of Tobacco Use on Household Consumption Patterns in Pakistan’ conducted by Social Policy and Development Centre (SPDC).*

## Tobacco expenditure leads to reduced spending on basic needs among poor households

Pakistan has comparably high rates of tobacco consumption and tobacco-related illness and disease. Estimates based on Pakistan’s Household Integrated Economic Survey (HIES) 2015–16 indicate that **tobacco is consumed in 45 percent of the households in the country**. Besides, consumption of tobacco constitutes a sizable portion of household expenditure. Considering the resource constraints of households, tobacco spending leads to reduced expenditure on other goods and services including basic needs such as education, health, food, housing, and others. Therefore, tobacco expenditure has direct bearing on household welfare. The research by SPDC examines the impact of tobacco use on the consumption pattern of households and also explores how reductions in tobacco expenditure affect intra-household resource allocation.

Figure 1: Share of tobacco in household expenditure (%)



Source: HIES, 2015-16

Figure 2: Monthly budget allocation of households (%)

	Tobacco-non-user	Tobacco-user		
		Overall	Lower income	Higher income
Tobacco	-	2.9	3.0	2.6
Basic food	38.2	40.5	43.5	31.7
Clothing	9.3	8.3	9.6	7.9
Health	3.1	3.0	2.9	3.2
Education	4.0	2.6	2.2	3.9
Transport	6.5	5.7	5.5	8.4
Energy	8.6	8.5	9.0	7.7
Housing	13.5	12.0	10.4	16.7
Others	16.9	16.6	13.9	17.9
Total	100.0	100.0	100.0	100.0

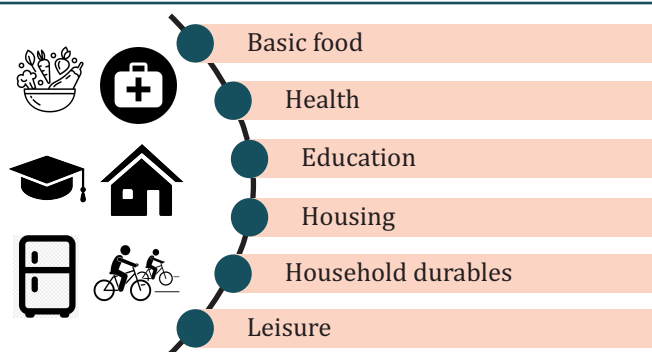
Source: HIES, 2015-16

The analysis reveals that **poor households spend more of their budget on tobacco as compared to rich households** in Pakistan. On average, tobacco-user households spend 2.9 percent of their monthly budget on tobacco products, while the ratio for lower-income (bottom 60 percent) and higher-income (top 40 percent) households is 3.0 percent and 2.6 percent, respectively. **In the case of lower-income households, the budget share allocated to tobacco is even greater than education and health.** Moreover, as compared to tobacco non-user households, tobacco-user households allocate significantly lower budget shares to all commodity groups barring the basic food (figure 2). Lower spending is more pronounced in education, housing, and clothing.

## Impact of Tobacco Consumption on Intra-Household Budget Allocation

The results show that in all commodity groups consumption decisions are significantly affected by tobacco expenditures. **The commodity groups that are negatively affected by tobacco spending include basic food, health, education, housing, household durables, and leisure.** Therefore, a decrease in the amount of tobacco spending will lead to an increase in the budget shares of these commodities.

Figure 3: Commodity groups negatively affected by tobacco expenditures



Source: HIES, 2015-16

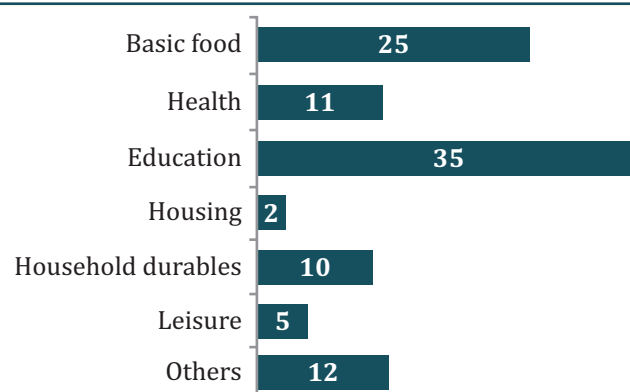
Figure 4: Increase in budget shares due to 50 percent reduction in tobacco expenditure (percentage points)

Commodity group	Overall	Lower income	Higher income
Basic food	1.8	3.9	-
Health	1.8	1.5	2.3
Education	3.6	4.6	3.7
Housing	3.4	0.4	6.7
Household durables	1.4	1.4	1.8
Leisure	0.3	0.6	-
Others	1.5	1.7	-

Source: HIES, 2015-16

The study conducted a simulation exercise to estimate what would happen if households spent 50 percent less on tobacco. The aggregated results show that the share of expenditure on education and housing is expected to increase substantially. The budget share of education increases by 3.6 percentage points (from 2.6 to 6.2 percent), while that of housing rises from by 3.4 percentage points. **The impact of tobacco expenditure on education and basic food is higher for lower-income households.**

Figure 5: Share of increased expenditure devoted to commodity groups by lower-income households (%)



Source: HIES, 2015-16

In absolute rupee terms, a 50-percent reduction in tobacco spending will lead to an increase of 17.8 percent (from Rs 23,045 to Rs 27,140 per month) in household expenditures on basic food, health, education, housing, household durables, leisure, and miscellaneous commodities together. For lower-income households, the expected increase in total expenditure on these commodity groups is 18.2 percent with the major share of increase devoted to education (35 percent) and basic food (25 percent).

## Conclusion

The analysis reveal that tobacco-user households allocate a significantly lower budget share to all commodity groups (except for basic food) than tobacco non-user households. The study finds strong evidence of a crowding out effect, in which a reduction in tobacco expenditure leads to an increase in household spending on basic food items, health, education, housing, household durables, leisure, and other commodities.

The findings of this study underscore the importance of tobacco control policies in Pakistan. For a developing country like Pakistan where income levels are low for a large proportion of households, policies aimed at reducing the demand for tobacco products would enhance the economic well-being of people, particularly the poor, as it would free up more resources for basic needs such as food and education. Given the tobacco-poverty link highlighted in the study, it is also recommended that tobacco control measures be integrated into the poverty reduction policies and programs.