Promoting A Future Without Tobacco
11th World Conference on Tobacco OR Health

The Economics of Tobacco Control: Exploding the Myths

A number of countries have delayed taking concerted action to reduce tobacco consumption out of concern that their economies will suffer. Some policymakers in these countries still believe that taking effective action to reduce tobacco consumption will mean the permanent loss of thousands of jobs in the farming and manufacturing sectors. Furthermore, they fear that higher tobacco taxes will result in lower government revenues and that higher prices will encourage massive levels of cigarette smuggling and disproportionately harm the poor. Yet according to the landmark 1999 report by the World Bank, *Curbing the Epidemic*[1], many of the these concerns are unfounded or exaggerated.

Myth:

Reducing Tobacco Use is an Issue That Only Affluent Countries Can Afford to Address

Currently, approximately 80% of the world's smokers live in developing countries, where smoking rates have risen dramatically in the past few decades. By the year 2020, 70% of all deaths from tobacco use will occur in developing countries, up from around 50% today. This means that in the coming decades developing countries will face increasing costs from tobacco use in terms of health care expenditures and lost productivity.

Myth:

Farming and Manufacturing Jobs Will Be Lost

Even the most optimistic forecasts indicate that global tobacco consumption will increase over the next three decades. WHO forecasts that if current trends continue, the number of smokers worldwide will increase from the current 1.1 billion to 1.6 billion in 2025 (due in part to an increase in global population), even as overall prevalence falls in some countries. While future declines in consumption will clearly reduce the number of tobacco farming jobs, those jobs will be lost over decades, not overnight. Hence governments will have ample opportunity to plan a gradual and orderly transition.

There are, however, a very small number of countries, mostly in sub-Saharan Africa, whose economies are heavily dependent on tobacco farming. For these countries, while reductions in domestic demand will have little impact, the long-term fall in global demand will eventually lead to job losses. Policies to aid adjustment in such circumstances will be essential. However, it should be stressed that any fall in global demand will occur slowly, over many generations.

Independent economists who have studied the tobacco industry's claims have concluded that they greatly exaggerate potential job losses. Tobacco production constitutes a small part of most countries' economies. In addition, money previously spent by consumers on tobacco will be reallocated to other goods and services, generating alternative employment (and taxes). Research done for the World Bank's report demonstrates that most countries will see no net job losses if tobacco consumption falls. Some countries will even experience net gains, particularly those which import most tobacco products and where the tobacco industry is dominated by foreign companies.

Myth:

Higher Tobacco Taxes Will Lead to Reduced Government Revenue

Increasing the price of cigarettes is the single most effective method of reducing demand since higher prices induce some smokers to quit and prevent other individuals – particularly young people and the poor, who are the most price sensitive – from starting. On average, increasing the price of a pack of cigarettes by a modest 10% would reduce demand by around 4% in high-income countries and 8% in low-to-middle-income countries. This would translate into millions of lives saved. Yet despite these reductions, revenues would actually *increase* by about 7% according to World Bank estimates. This is because cigarette consumption will fall by a smaller percentage than the rise in price. Furthermore, some of the money saved by quitters will be spent on other goods and services that are also taxed.

Myth:

Higher Tobacco Taxes Will Lead to Smuggling

The tobacco industry often argues that higher taxes will lead to massive increases in smuggling from low tax countries to high tax countries, thereby keeping cigarette consumption high but reducing government revenues. Although smuggling is a serious problem, the World Bank's report concludes that since tax increases lower tobacco consumption while raising government revenue, the appropriate response is to crack down on criminal activity rather than forego the tax increases. In addition, given recent revelations about the industry's involvement in cigarette smuggling, such arguments should be treated with caution.

Myth:

Higher Tobacco Taxes Will Hurt the Poor

Tobacco companies argue that prices should not be increased because to do so will harm low income earners. Research shows, however, that low-income populations are most harmed by smoking itself, which imposes massive costs in terms of morbidity, mortality, health care expenses and lost wages. Low income earners are also the primary beneficiaries of higher tobacco prices because they are much more likely to quit, cut back or avoid tobacco addiction entirely in response to a price increase. The benefit to poor people is even greater if the revenue from a tax increase is used to fund programs that benefit the least well off. In China, for example, conservative estimates suggest that a 10% increase in the cigarette tax would decrease consumption by 5%, increase revenue by 5%, and provide sufficient resources to finance a package of essential health services for one-third of China's poorest 100 million citizens.

Myth:

Tobacco Control Interventions Are Not Cost-Effective

Preliminary estimates were performed for the World Bank's report in which the public costs of implementing and administrating tobacco control programs were weighed against the potential number of healthy years of life saved. The results were consistent with earlier studies that suggest that tobacco control is highly cost-effective as part of a basic public health package in low- and middle-income countries. Measured in terms of the cost per year of healthy life saved, for example, tax increases are cost-effective. Depending on various assumptions, this instrument could cost between $5 and $17 for each year of healthy life saved in low- and middle-income countries. This compares favorably with many health interventions commonly financed by governments, such as child immunization.

Resources on the World Wide Web

World Bank, *Curbing the Epidemic: Governments and the Economics of Tobacco Control*, 1999
http://www1.worldbank.org/tobacco/reports.htm

Prabhat Jha, Joy de Beyer and Peter Heller, "Death & Taxes: Economics of Tobacco Control," *Finance & Development*, December 1999, Vol. 36, No. 4
http://www.imf.org/external/pubs/ft/fandd/1999/12/jha.htm

[1]World Bank, *Curbing the Epidemic: Governments and the Economics of Tobacco Control*, 1999.