



## A SIGNIFICANT FEDERAL CIGARETTE TAX INCREASE WILL STRENGTHEN THE ECONOMY AND CREATE NEW JOBS

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It is well established that a significant increase to the federal cigarette tax rate would both substantially increase federal revenues and reduce smoking and related harms and costs.<sup>1</sup> In fact, the Joint Committee on Taxation has projected that the 61-cent per pack increase recently passed by the U.S. House of Representatives would produce net new federal revenues of at least \$6.0 billion per year; and earlier estimated that a 61-cent increase would reduce U.S. taxed pack sales by less than 10 percent.<sup>2</sup> That kind of reduction would have only a negligible effect on the revenues and profits of cigarette manufacturers, wholesalers and retailers, but the related smoking declines would strengthen our economy, and create jobs. By reducing smoking, cigarette tax increases shift some consumer expenditures from cigarettes to more productive uses, increase worker productivity, and reduce public and private expenditures on healthcare and other smoking-caused costs.

- ***Smokers who quit or cutback will use the money they formerly spent on cigarettes to increase their savings and investments or to increase their spending on other goods and services.*** Overall, these alternative uses of the cigarette savings will help to produce more jobs and more productive economic activity.<sup>3</sup> Because cigarette manufacturing and distributing is so capital intensive, spending on cigarettes does not create as many jobs as spending on most other goods and services – and shifts from spending on a consumable product to increased savings or investments is always more economically productive (especially when the consumable product produces such large and serious social costs).<sup>4</sup>
- ***Using increased cigarette tax revenues to fund beneficial programs not only promotes worthwhile goals but typically helps to create jobs.*** Using cigarette tax revenues to support beneficial government programs produces a further shift of expenditures to more productive purposes. This beneficial shift will be especially pronounced in the pending State Children’s Health Insurance Program (SCHIP) legislation, which would use tobacco tax increases to fund the renewal and expansion of a program that provides critically needed healthcare to underserved youth. Moreover, spending on healthcare is an especially powerful way to create jobs.
- ***Economic studies have found that even if smoking were entirely eliminated in the United States, the net economic effect would be positive,*** with the shift from expenditures on cigarettes and other smoking-caused costs to more productive goods and services or to savings producing an increase in total jobs as well as other increases in productive economic activity.<sup>5</sup> Even in those states with the highest levels of tobacco farming and tobacco manufacturing, the direct economic consequences from eliminating all U.S. smoking would be offset by these other economic benefits, especially given the increasing diversification of those states’ economies over the past decade or so. In addition, the subsequent increases in public health and worker productivity from eliminating smoking would provide massive benefits and public and private cost savings to every region of the country. And all those net impacts and benefits hold true, in a smaller scale, when smoking is reduced rather than eliminated.
- ***State-specific economic impact studies in New Hampshire, Texas, and Virginia have found that substantial cigarette tax increases in those states would actually increase total state employment*** – and that reduced cigarette sales have, historically, been linked with increased state retail employment.<sup>6</sup>
- ***Cigarette tax increases do not significantly reduce overall retailer revenues.*** After Maryland’s cigarette tax was raised to \$1.00 per pack, a border-area impact study by the state Comptroller found that “*When all taxable sales throughout the entire study area for retailers typically selling cigarettes are examined, however, there is no evidence that the increase in tobacco taxes has had*

a direct and measurable impact on gross revenues.”<sup>7</sup> Moreover, any negative impact on retailer revenues would be even more unlikely with a federal cigarette tax rate increase, which does not (as state increases do) create any new cross-border retailer price differences.

- **The smoking reductions from a significant federal cigarette tax rate increase will increase worker productivity.** The U.S. Centers for Disease Control and Prevention (CDC) estimates that productivity losses caused by smoking amount to more than \$96 billion per year – and that total does not even include business losses from cigarette breaks or from workers being less productive when on the job because of smoking caused health problems.<sup>8</sup> Reducing smoking through a federal cigarette tax increase would reduce all of these smoking-caused productivity losses experience by public and private sector employers.
- **By reducing government, private sector, and household smoking-caused costs, a significant federal cigarette tax rate increase will further strengthen and improve the nation’s economy** – especially since those savings will, overall, be shifted to much more productive uses. CDC currently estimates that smoking-caused healthcare costs alone total more than \$96 billion each year, with federal and state governments covering roughly half of those costs and private health insurance and individual households covering most of the remainder.<sup>9</sup>

Campaign for Tobacco-Free Kids, January 26, 2009 / Ann Boonn

More information on federal tobacco tax increases is available at  
[http://www.tobaccofreekids.org/facts\\_issues/fact\\_sheets/policies/tax/us\\_federal/](http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_federal/).

<sup>1</sup> See, e.g., Campaign for Tobacco-Free Kids factsheet, *Public Health Benefits and Healthcare Cost Savings from a 61-cent Federal Cigarette Tax Increase*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0314.pdf>.

<sup>2</sup> Joint Committee on Taxation, *Estimated Revenue Effects of the Internal Revenue Code Provisions of H.R. 2, the “Children’s Health Insurance Reauthorization Act of 2009,” As Passed by the House of Representatives January 14, 2009*, JCX-4-09, January 14, 2009 [estimate reflects the Joint Tax Committee’s assumption that any increased tobacco tax revenues will reduce other federal revenues by an amount equal to 25% of the new tobacco tax revenues], <http://www.house.gov/jct/x-4-09.pdf>. Joint Committee on Taxation, *Modeling the Federal Revenue Effects of Proposed Changes in Cigarette Excise Taxes*, JCX-101-07, October 19, 2007 [because of changes to smoking rates and pack sales since 2007, a 61-cent increase now would reduce taxed pack sales in the United States by a somewhat smaller percentage], <http://www.house.gov/jct/x-101-07.pdf>.

<sup>3</sup> See, e.g., Warner, KE, “The Economics of Tobacco: Myths and Realities,” *Tobacco Control* 9(1):78-89, Spring 2000, [“when resources are no longer devoted (at all or as much) to a given economic activity, they do not simply disappear into thin air—the implication of the industry’s argument. Rather, they are redirected to other economic functions. If a person ceases to smoke, for example, the money that individual would have spent on cigarettes does not evaporate. Rather, the person spends it on something else”].

<sup>4</sup> See, e.g., Warner, KE & Fulton, GA, “The Economic Implications of Tobacco Product Sales in a Nontobacco State,” *Journal of the American Medical Association (JAMA)* 271(10):771-6, March 9, 1994; and other studies, supra, note 5.

<sup>5</sup> Warner KE, et al., “Employment implications of declining tobacco product sales for the regional economies of the United States,” *JAMA* 275(16):1241-6, April 24, 1996; Warner, KE & Fulton, GA, “The Economic Implications of Tobacco Product Sales in a Nontobacco State,” *JAMA* 271(10):771-6, 1994; Warner, KE, “Implications of a nicotine-free society,” *Journal of Substance Abuse* 1(3):359-68, 1989; Warner, KE, “The Economics of Tobacco: Myths and Realities,” *Tobacco Control* 9(1): 78-89, Spring 2000. Irvine, IJ & WA Sims, “Tobacco Control Legislation & Resource Allocation Effects,” *Canadian Public Policy Analyse de Politiques* 23(3), 1997, <http://economics.ca/cgi/jab?journal=cpp&view=v23n3/PPPv23n3p259.pdf>.

<sup>6</sup> Gottlob, B, *The Fiscal and Economic Impacts of Increasing the Cigarette Tax in New Hampshire*, PolEcon Research, March 2003; Gottlob, B, *The Fiscal and Economic Impacts of Increasing the Cigarette Tax in Texas*, PolEcon Research, 2004; Gottlob, B, *The Fiscal and Economic Impacts of Increasing the Cigarette Tax in Virginia*, PolEcon Research, April 15, 2004.

<sup>7</sup> William D. Schaefer, Comptroller for the State of Maryland, Letter to Thomas V. Miller, Senate President, and Michael E. Busch, Speaker of the House of Delegates, January 15, 2003.

<sup>8</sup> CDC, *Sustaining State Programs for Tobacco Control: Data Highlights 2006* [and underlying CDC data and estimates], [http://www.cdc.gov/tobacco/data\\_statistics/state\\_data/data\\_highlights/2006/index.htm](http://www.cdc.gov/tobacco/data_statistics/state_data/data_highlights/2006/index.htm). CDC, “Annual Smoking-Attributable Mortality, Years of Potential Life Lost, and Economic Costs—United States 2000-2004,” *MMWR* 57(45):1226-1228, November 14, 2008, <http://www.cdc.gov/mmwr/preview/mmwrhtml/mm5745a3.htm>.

<sup>9</sup> CDC, *Sustaining State Programs for Tobacco Control: Data Highlights 2006* [and underlying CDC data and estimates], [http://www.cdc.gov/tobacco/data\\_statistics/state\\_data/data\\_highlights/2006/index.htm](http://www.cdc.gov/tobacco/data_statistics/state_data/data_highlights/2006/index.htm). CDC, “Annual Smoking-Attributable Mortality, Years of Potential Life Lost, and Economic Costs—United States 2000-2004,” *MMWR* 57(45):1226-1228, November 14, 2008, <http://www.cdc.gov/mmwr/preview/mmwrhtml/mm5745a3.htm>. Campaign factsheet, *Toll of Tobacco in the United States of America*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0072.pdf> [and cited references].