



STATE CIGARETTE TAX INCREASES, RETAILERS, AND JOBS

Cigarette companies and convenience store owners often try to oppose state cigarette tax increases by arguing (incorrectly) that the increases will hurt the state's economy. They allege that the reduction to state cigarette sales from the tax increase will reduce retailer profits and reduce related employment. But that argument ignores a number of important facts and research findings.

1. **Money spent on cigarettes in state retail stores does not disappear when state smokers quit or cutback but simply shifts to consumer spending on other products or services.** For example, a pack-a-day smoker who quits because of a state cigarette tax increase will stop spending more than \$1,000 per year on cigarettes and have that \$1,000 to spend on other goods and services, including other products sold by convenience stores. And if the smoker just cuts back to half a pack a day, he or she will still have more than \$500 freed up to use and spend in different ways. While convenience store representatives often argue that cigarette sales declines will reduce their related revenues and profits, they typically hide the fact that much of the money previously spent on cigarettes will be spent on many other goods sold by convenience stores, thereby increasing their non-tobacco revenues and profits.
2. **Much of the money spent on cigarettes by state consumers is exported to the states where the major cigarette manufacturers are located.** Raising the state's tobacco tax rates will shift some current state spending on cigarettes to other goods and services, thereby keeping more money in the state, which will strengthen the state's economy.
3. **Economic studies show that reducing cigarette sales in a state will actually create new jobs and improve the state's economy.** One especially powerful series of studies showed that even if smoking were entirely eliminated in the United States, the net economic effect on each state would be positive, with more jobs created as well as other increases in productive economic activity.¹ Even in those states with the highest levels of tobacco farming and tobacco manufacturing, the economic consequences from the elimination of all U.S. smoking would be minimal – and the increasing diversification of those states' economies in recent years has eliminated those minor net consequences altogether. In fact, a state-specific study in Virginia found that a 50-cent cigarette increase there would have created or saved as many as 5,000 jobs, depending on how the new state cigarette tax revenue was used.² Similar studies on the economic impact of cigarette tax increases in New Hampshire and Texas found that \$1.00 increases there would create or save approximately 2,100 and 9,200 jobs, respectively.³
4. **Studies show that convenience stores and other in-state retailers will not be harmed by state cigarette tax increases.** A new study from Impacteen at the University of Illinois-Chicago looked at tobacco tax increases in all states over 13 years and found no decrease in convenience stores after tobacco tax increases; in fact, the analysis revealed a slight increase.⁴

A study of in-state retailers' gross revenues by the State of Maryland's Comptroller after that state's 34-cent cigarette tax increase found that "*When all taxable sales throughout the entire study area for retailers typically selling cigarettes are examined, . . . there is no evidence that the increase in tobacco taxes has had a direct and measurable impact on gross revenues.*"⁵ Similarly, the previously mentioned economic impact studies in Virginia, Texas, and New Hampshire found that, while the overall effects were very small, retail employment in those states actually declined when cigarette sales increased and that retailer employment increased when cigarette sales declined. The New Hampshire study also found that a \$1.00 increase would increase retail employment by approximately 180 new jobs (the Texas and Virginia reports did not include this retail-specific jobs analysis) – and this increase would occur despite the loss of New Hampshire retail sales to smokers coming into the state from nearby higher-tax states.⁶

5. **By reducing smoking, state cigarette tax increases reduce the smoking-caused expenditures of the state government and state businesses (including retailers).** Total smoking-caused health expenditures in the United States currently total close to \$100 billion per year.⁷ About half of those costs paid for by the federal government and state and local governments, with much of the remainder paid for

by the private sector (e.g., through worker health insurance). For example, state Medicaid program spending on smoking-caused disease and health problems, by itself, totals more than \$30.9 billion per year.⁸ In addition, the U.S. Centers for Disease Control & Prevention (CDC) estimates that productivity losses caused by smoking amount to more than \$97 billion per year – and that total does not even include employer losses from cigarette breaks or from workers being less productive when on the job because of smoking caused health problems.⁹ Reducing these smoking-caused costs and shifting the savings to more productive purposes and expenditures will improve the state's budget, reduce state business costs, and further strengthen state economies.

- 6. By reducing smoking, state cigarette tax rates reduce household expenditures on smoking-caused health costs, thereby freeing up more consumer resources for retail purchases.** Smokers who quit or cut back do not just eliminate or reduce their expenditures on cigarettes. They also reduce household expenditures on other smoking-caused costs, including smoking-caused healthcare costs. These savings will increase general household spending on consumer goods, including expenditures at state retail outlets.

These economic arguments are just one part of the issue. More importantly, cigarette tax increases will reduce the unacceptably high amounts of smoking-caused death, disease and disability that take such a terrible toll on families in the state. Retail owners, just like other people, already have family members and friends who are suffering from smoking-caused illness or have died prematurely from it. But significantly raising cigarette tax rates will reduce the number of friends and family who suffer from smoking-caused harms or die from smoking before their time.

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¹ Warner, K, et al., "Employment implications of declining tobacco product sales for the regional economies of the United States," *Journal of the American Medical Association (JAMA)* 275(16):1241-6, April 24, 1996. Warner, K, "Implications of a nicotine-free society," *Journal of Substance Abuse* 1(3):359-68, 1989. Warner, K & Fulton, G, "The economic implications of tobacco product sales in a non-tobacco state," *JAMA* 271(10):771-6, March 9, 1994.

² Gottlob, B, *The Fiscal and Economic Impacts of Increasing the Cigarette Tax in Virginia*, PolEcon Research, April 15, 2004.

³ 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.

⁴ Huang, J & Chaloupka, FJ, *The Economic Impact of State Cigarette Taxes and Smoke-free Air Policies on Convenience Stores*, ImpacTeen Research Paper, March 2011, http://www.impactteen.org/generalarea_PDFs/ITresearch40_Huang_with_exec_sum.pdf.

⁵ Schafer, WD, Comptroller of the State of Maryland, Report to the Senate President and the Speaker of the House of Delegates, January 15, 2003.

⁶ Gottlob, B, *The Fiscal and Economic Impacts of Increasing the Cigarette Tax in New Hampshire*, PolEcon Research, March 2003.

⁷ See Campaign for Tobacco-Free Kids factsheet, *Tobacco's Toll In the USA* [and sources cited therein], http://www.tobaccofreekids.org/facts_issues/fact_sheets/toll/us_federal/, and the Campaign factsheets on the toll of tobacco in each state, http://www.tobaccofreekids.org/facts_issues/fact_sheets/toll/us_states/.

⁸ See Campaign factsheet, *Tobacco's Toll In the USA*, supra, and the Campaign factsheets on the toll of tobacco in each state, http://www.tobaccofreekids.org/facts_issues/fact_sheets/toll/us_states/.

⁹ See Campaign factsheet, *Tobacco's Toll In the USA*, supra, and Campaign factsheets on the toll of tobacco in each state, http://www.tobaccofreekids.org/facts_issues/fact_sheets/toll/us_states/.