



STATE TOBACCO TAX INCREASES HAVE A MINIMAL IMPACT ON STATE RETAILERS AND JOBS

Tobacco companies and convenience store owners often try to oppose state tobacco tax increases by claiming that the increases will hurt state businesses. They allege that the reduction in state tobacco 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 tobacco products in state retail stores does not disappear when state smokers quit or cutback but simply shifts to consumer spending on other products or services.*** In its 2017 report, *The Economics of Tobacco and Tobacco Control*, the National Cancer Institute (NCI) and World Health Organization (WHO) stated, “Decreases in tobacco expenditures do not disappear from the economy; rather, they are redistributed to the consumption and production of other goods and services, generating income and employment in other sectors.”¹ For example, a pack-a-day smoker who quits because of a state cigarette tax increase can save the more than \$2,000 per year² that is no longer spent on cigarettes to spend on other goods and services, including other products sold in convenience stores. Tobacco users who quit or cut back do not just eliminate or reduce their expenditures on tobacco products. They also reduce household expenditures on other tobacco-caused costs, including health care costs. These savings will further increase general household spending on consumer goods.

Tobacco companies and their retailer allies know this. An industry-sponsored report from 1984 stated, “if consumers were faced with no available tobacco products, they would reallocate their spending to other goods and services. This reallocated spending would generate additional business opportunities in other sectors of the economy along with the associated employment and incomes.”³

In fact, convenience stores recognize the need to adapt to changing consumer demands in order to thrive as a business. A 2015 report commissioned by the National Association of Convenience Stores emphasized increasing healthy options in convenience stores, stating, “C-stores must understand that solely catering to their declining core audience [those purchasing cigarettes, beer, hot dogs, etc.] is not a growth strategy.”⁴

2. ***Convenience stores and other retailers exaggerate the business impact of state tobacco tax increases.*** The NCI-WHO monograph stated, “With only a few exceptions, studies assessing the net employment impact of reductions in tobacco use resulting from tobacco control policies have concluded that the overall number of jobs would increase.” Further, it concluded, “In nearly all countries, national tobacco control policies will have either no effect or a net positive effect on overall employment because tobacco-related job losses will be offset by job gains in other sectors.”⁵ A study looked at tobacco tax increases in all states over 13 years and found no decline in convenience stores after tobacco tax increases; in fact, the analysis revealed a slight increase.⁶ Similarly, another study found that declines in cigarette consumption do not have a negative impact on employment in convenience stores.⁷

In Minnesota, a research firm paid by multiple tobacco companies and their allies released a report claiming that the state’s 2013 tobacco tax increase reduced employment in the state, particularly along counties bordering states with lower tax rates. However, actual data from the Minnesota Department of Employment and Economic Development did not support the claims made in the report.⁸

3. ***Past economic studies show that reducing cigarette sales in a state will actually create new jobs and improve the state’s economy.*** A 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.⁹ A study from Indiana found that because of the high toll of tobacco use, if tobacco was no longer used or grown there, the state’s economy would thrive. Specifically, lower health care costs would reduce business costs, allowing them to hire more workers and pay higher wages. Living longer means more spending and longer working lives.¹⁰

4. **By reducing smoking, state tobacco 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 approximately \$170 billion per year.¹¹ Federal, state, and local governments pay for a portion of those costs, the private sector (e.g., through worker health insurance) pays the rest. For example, state Medicaid program spending on smoking-caused disease and health problems, by itself, totals \$39.6 billion per year.¹² In addition, the U.S. Centers for Disease Control & Prevention (CDC) estimates that productivity losses caused by smoking amount to more than \$150 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.¹³ 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.
5. **Tobacco tax increases foster a healthier, more productive workforce.** Businesses can only prosper if they have healthy employees and can draw from a pool of healthy potential employees. Because tobacco use is the leading cause of death in the United States and reduces worker productivity, one of the best ways to improve the health and productivity of state and local residents is to reduce smoking by increasing tobacco product prices. Only those businesses that profit from the sale of tobacco products oppose policies to reduce tobacco use. It is deceptive to, on the one hand, talk about being a committed member of the community, while on the other hand oppose policies that will improve the health of the community.
6. **Enhanced enforcement efforts can protect retailers and revenue.** States can protect revenue and retailer businesses by increasing tax enforcement and implementing high-tech tax stamps, which allow enforcement agencies to trace the sources of illegal products. Some retailers who illegally sell untaxed cigarettes, knowingly or not, are robbing the state of revenue and undercutting legitimate, law-abiding retailers. A 2007 report on tax evasion by the California Board of Equalization stated, "California cigarette tax evasion by retailers is a far larger revenue problem compared to casual cigarette tax evasion by consumers. Evasion by retailers is organized or systematic evasion, primarily by retailers who knowingly purchase contraband cigarettes."¹⁴
7. **The tobacco industry enlists convenience stores to make their claims, even when evidence shows tobacco taxes don't hurt their businesses.** Paying retailer groups, like NACS and the National Association of Tobacco Outlets (NATO) to oppose tobacco tax increases enables the tobacco industry to put a local business face on its efforts to protect its bottom line at the expense of public health.¹⁵
8. **Much of the money spent on tobacco by state consumers is exported to the states where the major tobacco 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.

These economic arguments are just one part of the issue. More importantly, tobacco 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 tobacco 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 U.S. National Cancer Institute (NCI) & World Health Organization (WHO), *The Economics of Tobacco and Tobacco Control*, National Cancer Institute Tobacco Control Monograph 21, NIH Publication No. 16-CA-8029A, Bethesda, MD: U.S. Department of Health and Human Services, National Institutes of Health, National Cancer Institute; and Geneva, CH: World Health Organization; 2016, https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_complete.pdf.

² Campaign for Tobacco-Free Kids factsheet, *Immediate Smoker Savings from Quitting in Each State*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0337.pdf>.

³ Chase Econometrics, *The economic impact of the tobacco industry on the United States economy in 1983*, Vol. 1: The impacts on the national economy, Bala Cynwyd, PA: Chase Econometrics, 1984, at 3.

⁴ Cardello, H & French, S, "Health & Wellness Trends and Strategies for the Convenience Store Sector," Hudson Institute, October 2015, <http://www.nacsonline.com/YourBusiness/Refresh/Documents/Grow-BFY-Sales.pdf>.

⁵ NCI & WHO, *The Economics of Tobacco and Tobacco Control*, National Cancer Institute Tobacco Control Monograph 21, 2016, https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_complete.pdf.

⁶ Huang, J & Chaloupka, FJ, "The Economic Impact of State Cigarette Taxes and Smoke-free Air Policies on Convenience Stores," *Tobacco Control* 22(2):91-6, March 2013.

⁷ Ribisl, KM, Evans, WN, & Feighery, EC, "Falling cigarette consumption in the U.S. and the impact upon tobacco retailer employment," in Bearman, P, Neckerman, K, & Wright, L, eds. *Social and Economic Consequences of Tobacco Control Policy*, New York: Columbia University Press, 2011.

⁸ Mattson, LR, Chaloupka, FJ, & Boyle, R, *Get the Facts: Minnesota's 2013 Tobacco Tax Increase is Improving Health*, February 10, 2015, http://tobaccoeconomics.org/wp-content/uploads/2015/02/Minnesota-2013-Tobacco-Tax-White-Paper_10Feb15.pdf.

⁹ 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.

¹⁰ Barkey, PM, *The Economic Impact of Tobacco Use in Indiana*, August 2005, http://www.in.gov/isdh/tpc/files/EconomicImpactTobaccoIndiana_2005.pdf.

¹¹ Xu, X, et al., "Annual Healthcare Spending Attributable to Cigarette Smoking: An Update," *American Journal of Preventive Medicine* 48(3):326-33, March 2015. See also, Campaign for Tobacco-Free Kids factsheet, *Tobacco's Toll In the USA* [and sources cited therein], http://www.tobaccofreekids.org/facts_issues/toll_us, and the Campaign factsheets on the toll of tobacco in each state, http://www.tobaccofreekids.org/facts_issues/fact_sheets/toll/us_states/.

¹² Xu, X, et al., "Annual Healthcare Spending Attributable to Cigarette Smoking: An Update," *American Journal of Preventive Medicine* 48(3):326-33, March 2015. See also, Campaign factsheet, *Tobacco's Toll in the USA*, and the Campaign factsheets on the toll of tobacco in each state, http://www.tobaccofreekids.org/facts_issues/fact_sheets/toll/us_states/.

¹³ U.S. Department of Health and Human Services (HHS), *The Health Consequences of Smoking – 50 Years of Progress A Report of the Surgeon General*, 2014. See also, 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/.

¹⁴ California Board of Equalization (BOE), *Revenue Estimate: Cigarette and Tobacco Products Tax Evasion*, June 27, 2007, <https://www.boe.ca.gov/pdf/cig-evasion-07.pdf>.

¹⁵ Campaign for Tobacco-Free Kids, American Heart Association, Counter Tobacco, *Deadly Alliance: How Big Tobacco and Convenience Stores Partner to Market Tobacco Products and Fight Life-Saving Policies, 2016 Update*, December 15, 2016, http://www.tobaccofreekids.org/content/what_we_do/industry_watch/store_report_slideshow/Deadly_Alliance_2016.pdf.