

**Tobacconomic:  
Myth on Cigarette Tax Excise  
Drg. Rahma Indira Wardani, MARS.**



# Tax Excise on Cigarette

## **Economic Efficiency**

- Correct for failures in tobacco product markets
- Imperfect information
- Externalities
  - Increased health care costs, lost productivity
  - Increased financial costs related to publicly financed health care used to treat diseases
- Can also include “internalities” that result from addiction and time inconsistent preferences

# Increasing Cigarette Tax Excise

- Reduce the % of people that use tobacco products (prevalence) especially people who initiate to smoke, young people and the poor.
- Reduce the quantity consumed by those who continue to smoke



# The Myths

- Tobacco industries (TI) develop myths using economic arguments against tobacco control (TC) effort



## – Goals:

- To divert attention away from risk of cigarette consumption
- Protecting their profits

## – The main issues:

- TC effort are ineffective
- TC effort will be disastrous for the economy





MYTH #1

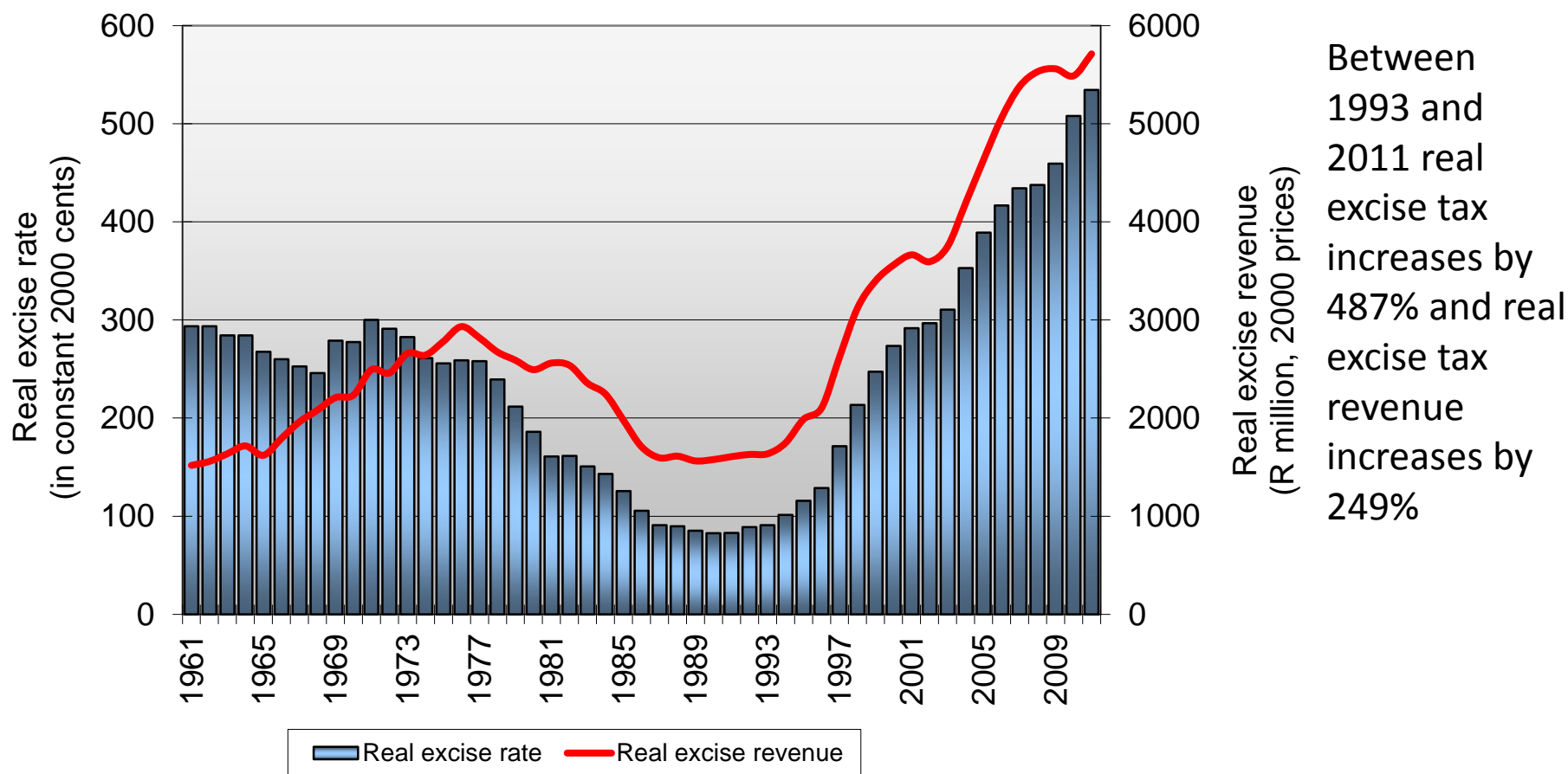
**INCREASING CIGARETTE TAX EXCISE  
WILL REDUCE GOVERNMENT REVENUE**

# The Fact

No evidence shows that Increasing cigarette tax excise will reduce government revenue

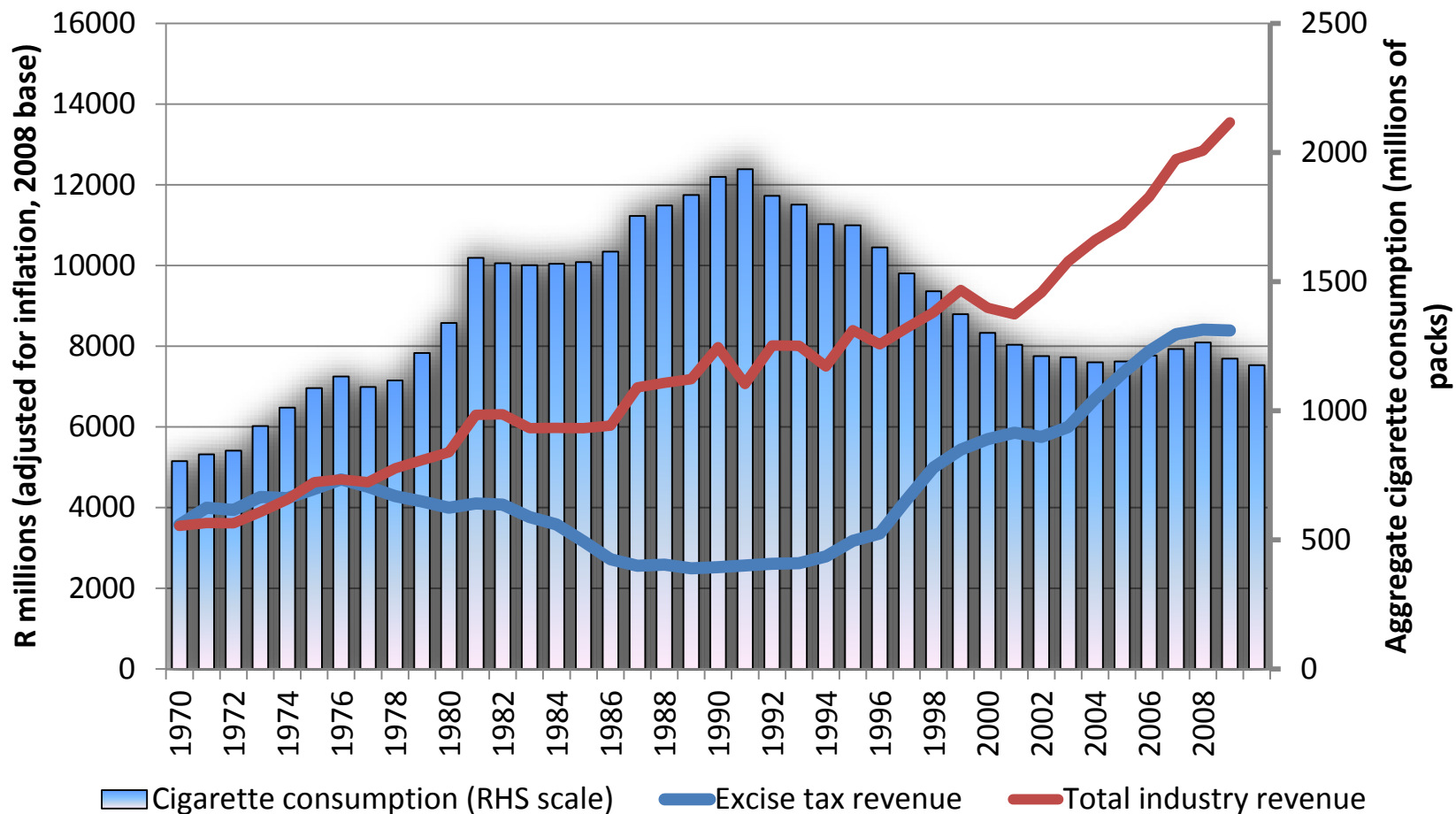
# Big Increases in the Excise Tax Have Resulted in Big Increases in Tax Revenue

The South African experience, 1961 - 2011



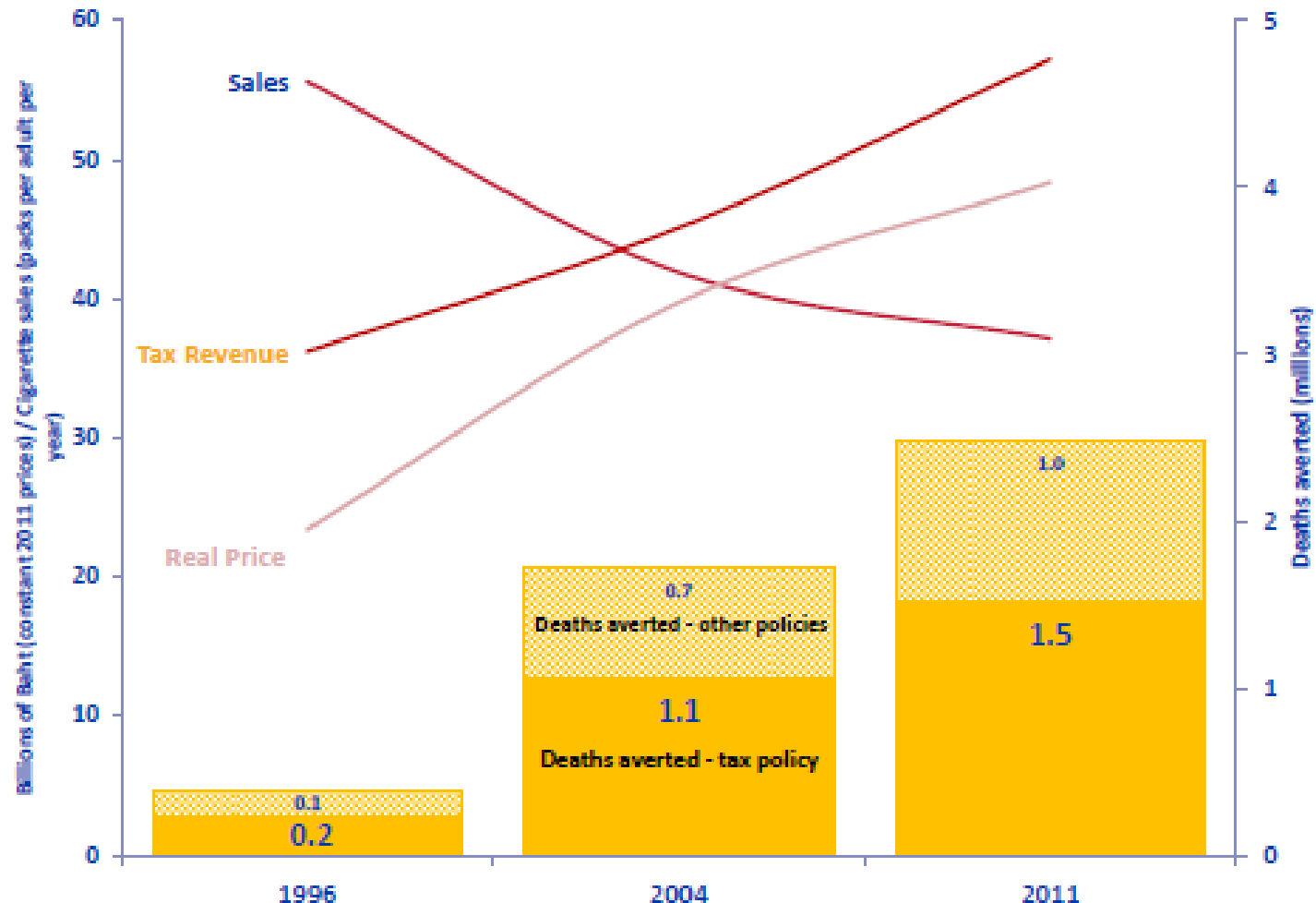
# Fall in consumption, real excise & industry revenues increased

## The South African experience, 1961 - 2011





# Impact of Increasing Cigarette Tax Excise in Thailand



## MYTH #2

**INCREASING CIGARETTE TAX EXCISE  
WON'T MAKE THE PUBLIC HEALTH  
GOAL ACHIEVED.**

**IT WILL PROVOKE LOWER-PRICE  
CIGARETTE SMUGGLING AND ILLICIT  
TRADE**

# The Fact

- Public health goal is better achieved
  - Inelastic nature of cigarette market
  - Smuggling and illicit trade can be manage by controlling other factors , such as
    - Weak enforcement
    - High corruption → more tolerant
    - TI involvement

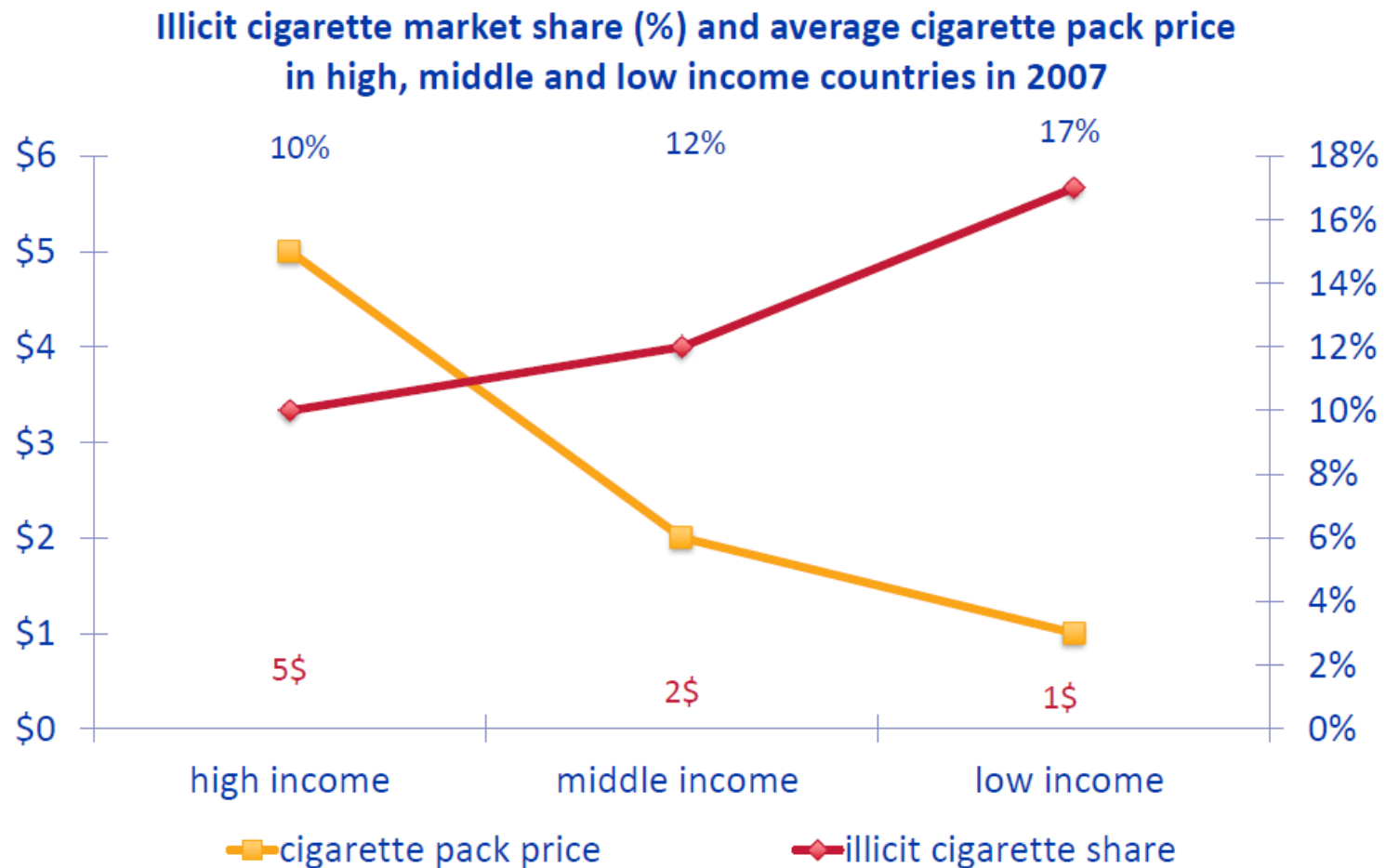
# Potential Impact of a Price Increase of 10% and a Package of Non-Price Measures

<i>Region</i>	<i>Change in number of smokers (millions)</i>		<i>Change in number of deaths (millions)</i>	
	<i>Price increases</i>	<i>Non-price measures</i>	<i>Price increases</i>	<i>Non-price measures</i>
Low/Middle Income	-38	-19	-9	-4
High Income	-4	-4	-1	-1
World	-42	-23	-10	-5

Ranson et al (2000). Effectiveness and Cost-effectiveness of Price Increases and Other Tobacco Control Policies. n

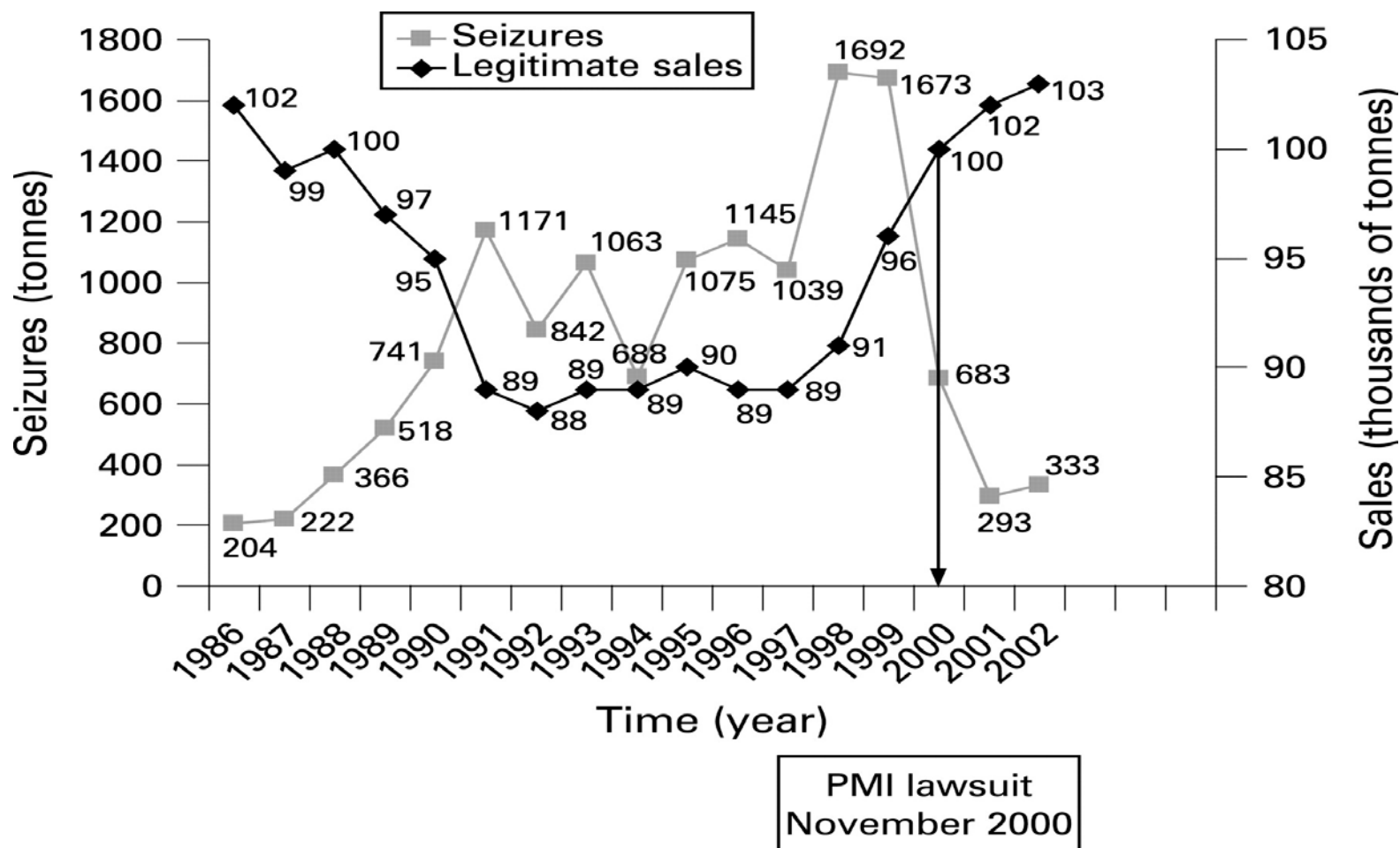
Ross H, Chaloupka FJ (2006). Economic Policies for Tobacco Control in Developing Countries, Salud Publica de Mexico/vol. 48, suplemento 1

# Inverse Relationship Between Average Cigarette Price and the Size of Illicit Trade



Joonssens L et al (2010). The Impact of Eliminating the Global Illicit Trade on Health and Revenue. . In Ross H (2013), De-bunking the myths of Tobacco Taxation, The American Cancer Society

# Legitimate Sales and Seizures in Italy

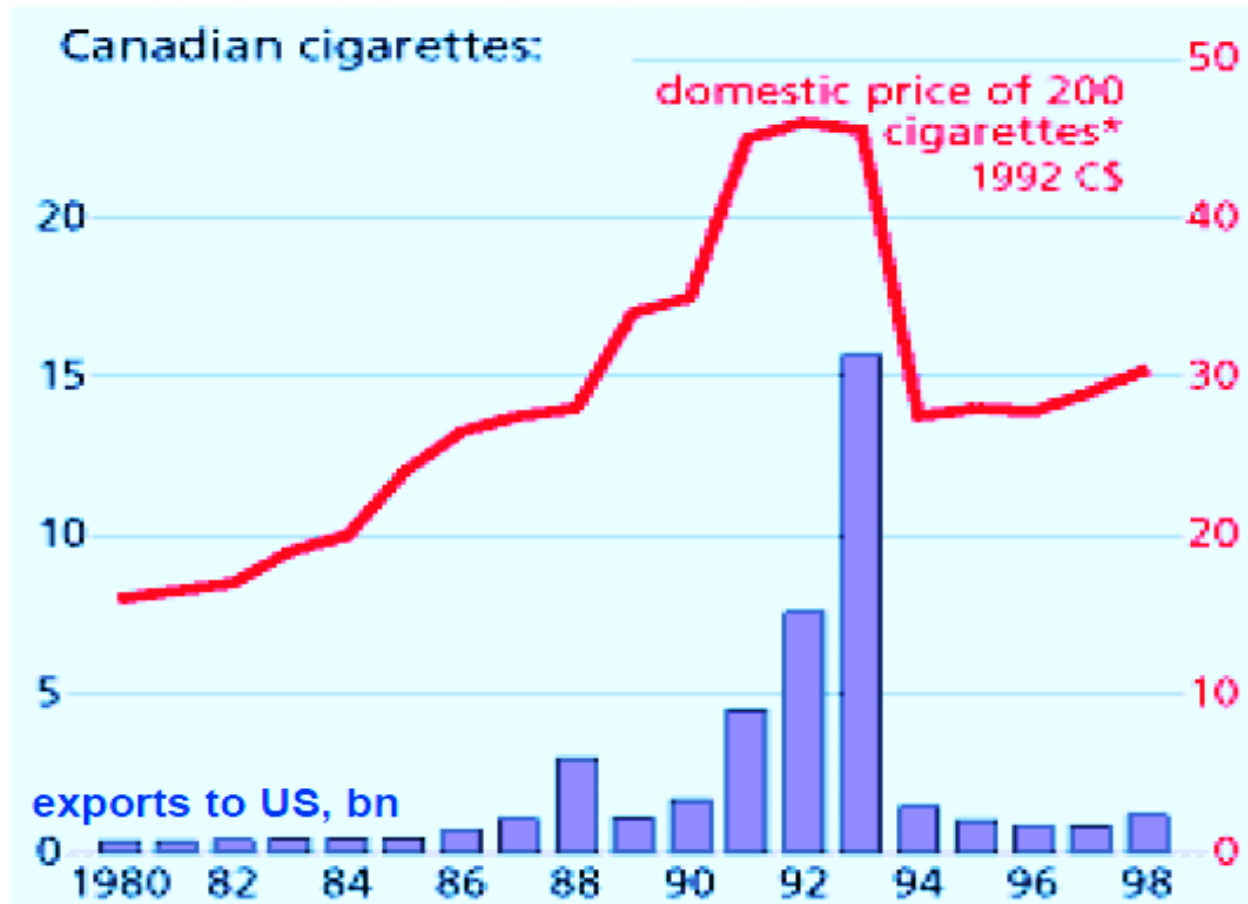


Joossens L a Raw M. Progress on Combating Cigarette Smuggling: Controlling the Supply Chain. *Tob Control* 2008;**17**:399-404. <http://tobaccocontrol.bmj.com/content/17/6/399.full> accessed on 8 April 2015



# TC Implicitly in Cigarette Smuggling

Canada → US → Canada



Canadian Cancer Society et al (1999). Surveying the Damage. In Ross H (2013), De-bunking the myths of Tobacco Taxation, The American Cancer Society

MYTH #3

**CIGARETTE TAX POLICY IS NOT A PRO  
TO POOR PEOPLE**

# The Fact

- Tobacco related disease burden in the poor is larger because:
  - Higher prevalence rates
  - Highest proportion of income spent to tobacco
  - Poor knowledge of health risk tobacco use





# The Fact

- If the cigarette excise is increased, the tax revenue will majority come from the rich
- The poor people consumption will be decreased → smoking related disease risk and cost will be reduced
- Government can allocate higher for other public health program, healthcare, cessation service, etc for poor people



MYTH #4

**TOBACCO INDUSTRY IS IMPORTANT  
FOR NATION'S ECONOMY**

# The Myths of Tobacco Industry Importance

- The consequences of increasing cigarette tax are:
  - Jobs will be lost, income will fall
    - Tobacco farmer
    - TI labor
    - Cigarette seller
    - etc
  - Trade balance will be in deficit
  - Tax revenue will be decreased



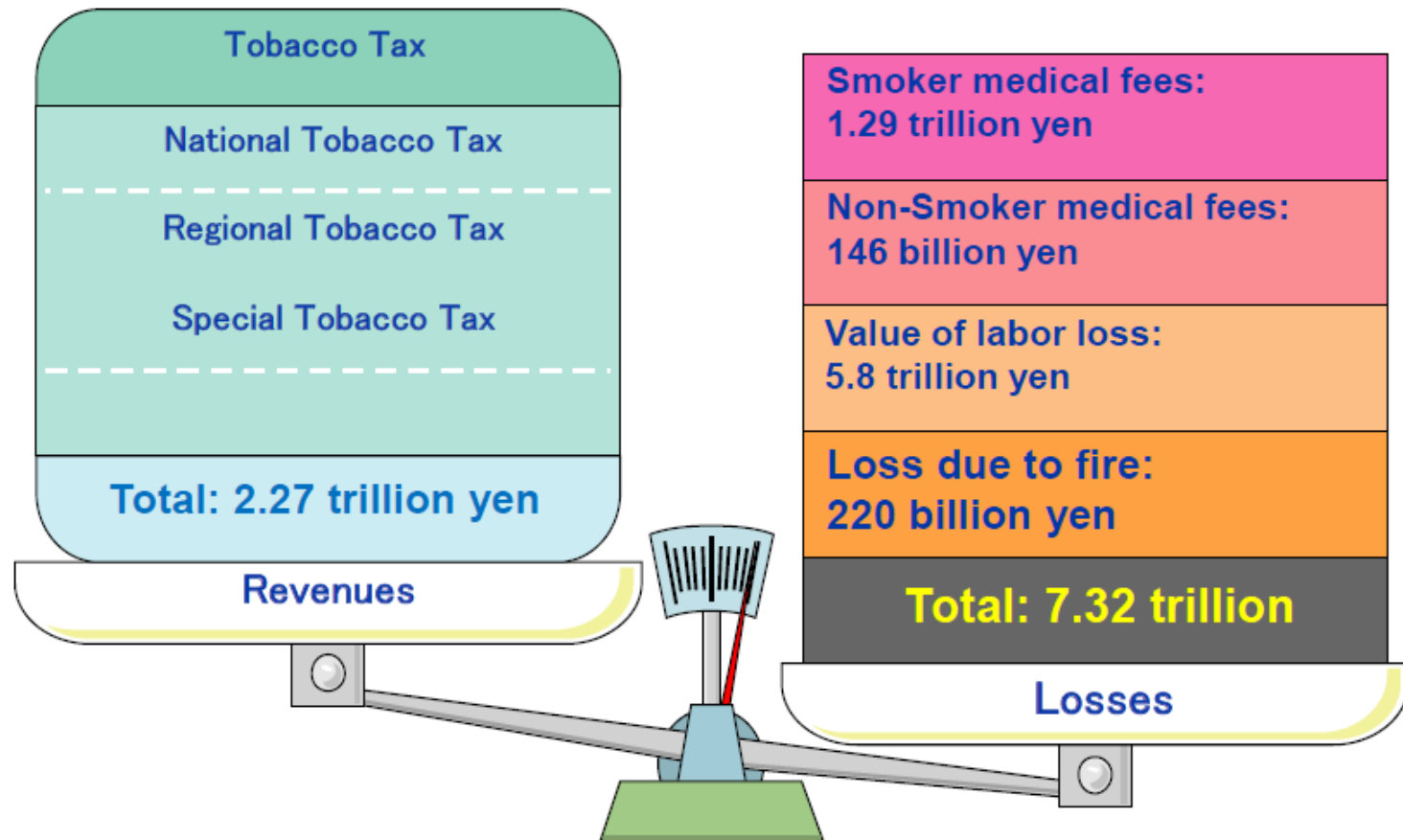
# The Fact

- The tobacco business is not vital for any economy:
  - Philippines: tobacco manufacturing accounts for only 0.1% of value added in the economy and employs 0.03% of total employment
  - Philippines: tobacco farmers account for 0.5% of agri labor
  - Vietnam: tobacco farmers account for 0.5% of agri labor and tobacco generated 0.3% of manufacturing jobs in 2000 while male smoking prevalence in 2002 was 56%
  - Indonesia: tobacco generated 0.53% of total employment in 2004 while male smoking prevalence was 63%)

# The Fact

- The 2 main tobacco farming communities of Brazil were ranked 451 and 454 out of 467) in 2000 in terms of their Socioeconomic Development Index (capturing education, income, sanitation, health) (Ross H, 2013)

# Japan's Economic loss related to Smoking



Health Economics Research Institute (200. Report on the Effect of Tobacco Tax: Tobacco Cost and Revenue. In 2)Ross H (2013), De-bunking the myths of Tobacco Taxation, The American

# The Fact

- Two-third tobacco leaves for Cigarette production in Indonesia are imported (MoT, 2014 in Thabrany, 2015) → losing more hard currency in cigarette imports than gained by exporting tobacco
- TI exaggerate the employment numbers. They hiring less human resource and use more machine to gain higher profit



# The Fact

- Human resource related to tobacco business can be redirected to other alternative economic functions
- It needs government, people and other stakeholders awareness and willingness



# The Fact

- Globally, nearly \$6,000 in profit for every death caused by tobacco
- Compare 400,000+ tobacco jobs per year in the U.S. to 400,000+ deaths caused by tobacco:
  - Each tobacco job, for one year, comes at the cost of one smoker's losing 15 years of life.
- The job is replaceable. The life is not.



# Loss in productivity



- Tobacco imposes an enormous financial burden on a country, greatly increasing health care costs to treat smoking produced diseases and reducing productivity.
- Lower cigarette price → anyone can afford to buy and access
- More than 70% people who initiate to smoke is teenager → get addicted
- Cost of loss in productivity is twice or more than the amount spent on medical treatment

# The Tobacconomic

- Until Indonesia ends tobacco use, more young people become addicted
- More burden from tobacco related disease
- More family will be devastated by loss of loved ones

