Saving Lives Through Tax Policy

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Increasingly, public policymakers have turned to taxing tobacco products as a method of raising revenue and saving lives. Last year, the American Heart Association (AHA), American Cancer Society, and American Lung Association, united as the Coalition on Smoking OR Health, embarked on what at the time appeared to be a long-shot public policy initiative—seeking to raise the cigarette tax by as much as $2 per pack, with corresponding increases for smokeless tobacco products, including chewing tobacco and snuff. However, since a Capitol Hill announcement of coalition plans at a January 1993 news conference, it has become increasingly likely that a significant excise tax increase will be enacted.

Editorial boards at the nation's leading newspapers quickly lined up in support of the dual purpose of the increase. U.S.A. Today wrote, "President Clinton says he's considering a big, new tax on tobacco to pay for health-care reform. And well he should. The idea is overdue. The tax could raise money and save thousands of lives a year . . . What fairer way to get money than to tax behavior that adds billions of dollars to the USA's health-care burden?" An editorial in The Washington Post stated, "Taxing tobacco more heavily—as President Clinton suggested the other day—is a thoroughly good idea. It's a twoper. The tax not only would raise substantial amounts of money for a government that desperately needs it but would exercise greater pressure on people to cut down their smoking." A Post article headlined, "Monster Cigarette Tax of Up to $2 a Pack Is Said to Gain Support."

During the past 10 years, our neighbors in Canada have used tax policy to secure great advances in the field of tobacco control. According to a June 1993 report from the Canadian Department of Finance, from 1980 through 1991, federal excise levies have increased by more than 550%, whereas provincial taxes have risen by more than 500%. From 1981 through 1989, the percentage of smokers (15 years of age and older) decreased from 40% to 32%. Tax increases have had an even greater effect on youth. In 1981, 45% of male teenagers smoked compared with 22% in 1989, a more than 50% decrease in consumption. From 1981 to 1991, overall Canadian tobacco consumption decreased by 36%. At the same time, tax revenue increased from $2 billion to $7.1 billion.

According to the European Bureau for Action on Smoking Prevention, the First European Conference on Tobacco Policy (Madrid, November 1988), organized by the World Health Organization and the Commission of the European Communities, recommended that all countries institute a program of regular price increases for tobacco products and that tax increases should be large enough to raise the real price of tobacco at a rate faster than the predicted increase in real disposable income. Recent statistics show that total taxes (federal, state, or provincial and sales) are much higher in Europe than the United States. According to 1991 and 1992 statistics, the total tax burden (in US dollars) in Denmark is $4.07; Norway, $3.97; Canada, $3.26; Finland, $3.25; United Kingdom, $3.24; New Zealand, $1.92; and France, $1.52. Total US taxes average 50 cents per pack (federal and state).

The AHA has long advocated an increase in the federal cigarette excise tax based on the following rationale: the tax is a demonstrably effective method of discouraging cigarette use; the tax raises government revenue and reduces the government's budget deficit problem; and the tax can serve as an effective deterrent to the initiation of smoking by children and teenagers. Americans who have not started smoking as teenagers are unlikely to ever smoke. According to a survey by the National Institute on Drug Abuse, 90% of smokers begin smoking before the age of 20 and 50% before the age of 15. Thus, a tax increase, if sustained in real terms, can lead to eventual substantial reductions in the smoking population.

An increase in the excise tax on tobacco products has been one of the most effective mechanisms of discouraging teenagers from beginning to smoke. However, the federal government has been hesitant to enact increases. Federal cigarette excise taxes were first imposed during the Civil War and were raised periodically until 1951, when the federal tax reached 8 cents per pack. Since that time, Congress has enacted increases in the federal cigarette excise tax only twice, in 1982 and 1990. (Effective January 1, 1991, the federal cigarette excise tax was raised to 20 cents, followed by an increase to 24 cents on January 1, 1993.) On the state level, cigarette excise taxes range from a low of 2.5 cents (Virginia) to a high of 60 cents (Hawaii) per pack. Since 1983, total local levies from tobacco taxes have risen 22%, and state revenues have risen 53%. Local, state, and federal excise taxes were estimated at $11.6 billion in 1992. In addition, more than $2 billion in state sales taxes were also collected.

Tobacco consumption is exacting growing health care costs on society in general, and the federal government in particular. In 1993, the US Department of Health and Human Services reported that smoking costs the nation $68 billion annually, more than $2.50 per pack (1990 data).
An increase in the federal cigarette excise tax is popularly supported. A 1993 Gallup poll commissioned by the Coalition on Smoking OR Health found that 72.8% of respondents favor funding health care reform with an increase in the cigarette excise tax. More than two thirds of respondents would support a tax of $2 per pack. Among those favoring a $2 increase, 54% would support an increase of more than $2.

As the health care reform debate heats up, financing is very much on the minds of state and federal government decision makers. Recent articles continue to focus on tobacco taxes as a vehicle for several different facets of health care reform — as a possible funding mechanism for Americans lacking health insurance or for expansion of long-term care coverage. During the period before official announcement of President Clinton’s plan, the AHA continued to support an excise tax of at least $2 per pack to help finance health care reform. Such an increase would generate as much as $27 billion each year while decreasing consumption an estimated 23%. It is estimated that a $2-per-pack increase would reduce the number of people who smoke by more than 7.5 million and prevent roughly 2 million premature tobacco-caused deaths.

An argument frequently used by the tobacco industry is that tobacco excise taxes are regressive and present an unfair burden on the poor and the minority community. Despite these allegations by the tobacco industry, according to a recent American Cancer Society poll, a majority of low-income voters (income of less than $20,000) favor a $2 increase in tax. African-Americans are nearly as likely as white voters to support a $2 cigarette excise tax increase. Hispanic voters are especially likely to support raising the tax. If low-income smokers respond to tax increases with reduced levels of consumption, they will benefit because they are least able to bear the cost burden of tobacco-related illness and most likely to be without the benefit of health insurance. Of course, additional disposable income will be available for more productive purposes.

During the past 10 years, the tobacco industry has raised the wholesale price of tobacco between 10% and 15% each year, totaling more than 200%. At the same time, the industry spared itself much of the effects of the price elasticity by instituting the annual hikes in from two to four increments over the course of 1 year. Increasingly larger percentages of the profit made by selling cigarettes go directly to the industry. Recent figures place the tobacco farmers’ share of the profit made from a stalk of tobacco at 2.6%, with the industry garnering 63.3%. The AHA supports using a small percentage of the tax to help tobacco farmers diversify into the growth of alternative crops. Funds would be used for irrigation, planting, and harvesting equipment; collection; packing; processing; and distribution. Retirement credits would be available for tobacco farmers who give up their tobacco-growing allotments and reinvest in alternative agriculture and/or livestock.

In November 1992, the National Cancer Institute assembled a 26-member panel of experts to reach a consensus on the price elasticity of demand for tobacco products. After a thorough review of the available data from the United States, Canada, and overseas, the experts reached a consensus that the current price elasticity of demand in the United States is in the range of −0.3 and −0.5. This means that when price is increased by 10%, the demand for cigarettes will fall between 3% and 5%. The report, released in August 1993, concludes that a major increase in the federal tax on cigarettes may be the most effective way to quickly and substantially reduce smoking among children and adolescents. Children were found to be at least as sensitive to price changes as adults, providing an equal or greater health benefit to young people. Even greater health benefits will be achieved when the tax is used for a comprehensive tobacco control program, including the use of mass media, education of children, and smoking cessation programs.

In conclusion, substantially increasing taxation on tobacco products is good public policy and an effective method of reducing consumption of tobacco products. It is an effective public policy tool for substantially reducing death and disability from cardiovascular diseases and stroke, one with both short- and long-term benefits.
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