

*A Policy Research Partnership
to Reduce Youth Substance Use*

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Economics of Tobacco and Alcohol in the United States

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Prepared for the 2nd East-West Conference on Tobacco and Alcohol: Culture, Environment, and Genes, April 5-6, Pasadena CA

Economic Impact of Tobacco And Alcohol Use in the US

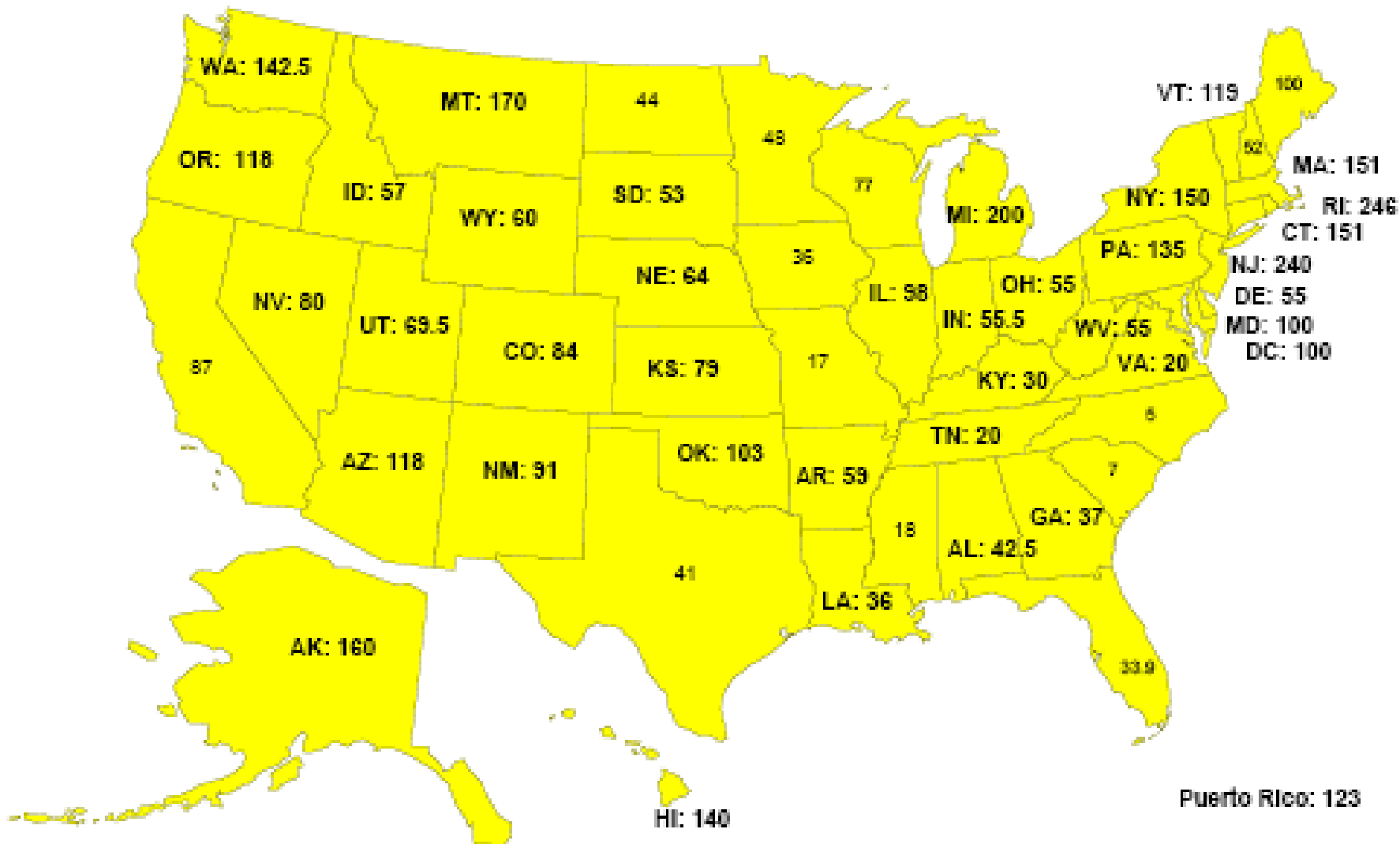
- Substantial public health consequences result in significant economic consequences:
 - Direct medical costs
 - Lost productivity
 - Other social costs
- Tobacco:
 - Annual estimated costs, 1995-1999 over \$157 billion/year
 - \$75.5b health care; \$81.6b lost productivity
 - Almost \$3,400 per smoker per year
 - Alcohol
 - Estimated economic cost (1998): \$185 billion/year
 - Over 70% lost productivity; remainder split between health care/treatment costs and social costs
 - Substantial costs on non-drinkers

Sources: Harwood et al. (2000); CDC (2002)

Economic Interventions to Reduce Tobacco and Alcohol Use/Consequences

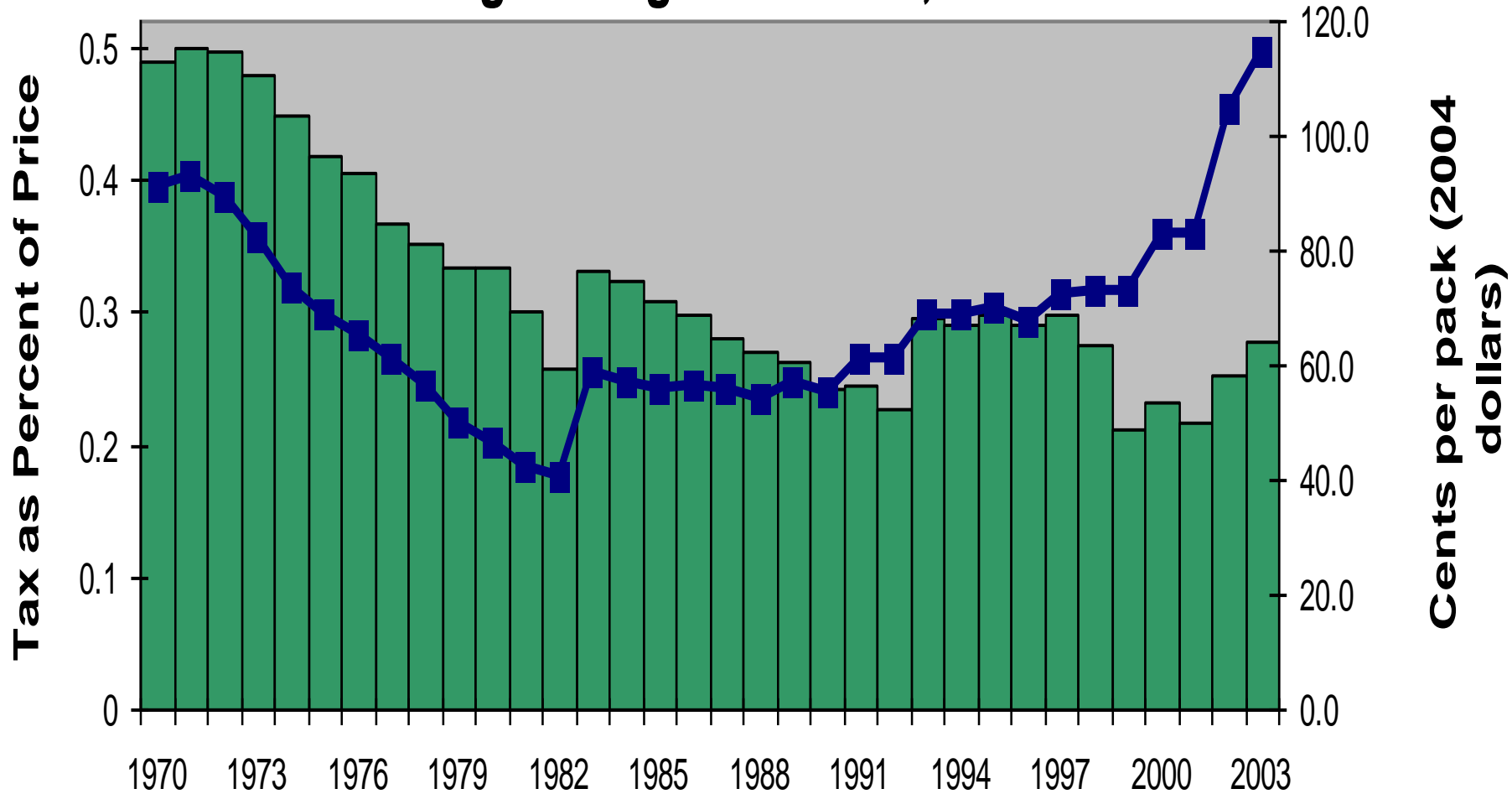
- Excise taxation
 - Escrow-related statutes
 - Collection of taxes on Internet/other direct sales
- Policies controlling distribution (mainly alcohol)
 - state monopoly of wine/spirits
 - licensing of wholesalers/retailers
 - exclusive territory, price posting, other restrictions on competition
- Policies affecting promotions/pricing
 - minimum pricing policies
 - limits on quantity discounts at wholesale level
 - limits on promotions for alcoholic beverages
 - bans on happy hour, pitcher sales, other promotions

Current/scheduled state cigarette excise taxes



Source: Campaign for Tobacco-Free Kids, <http://tobaccofreekids.org/research/factsheets/pdf/0222.pdf>

Inflation Adjusted Average Cigarette Tax and Tax as Percentage of Cigarette Price, 1970-2003

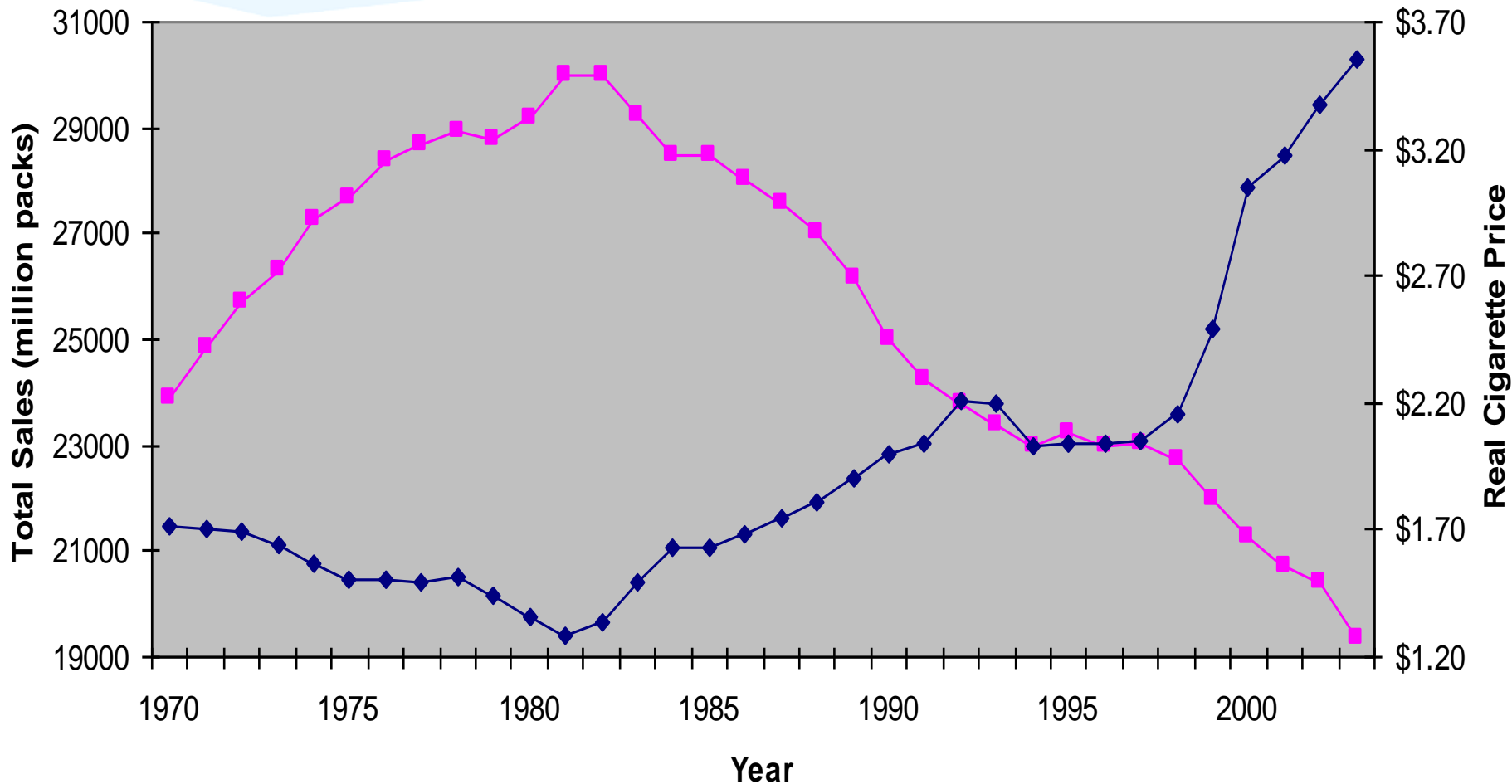


Source: *Tax Burden on Tobacco* and author's calculations

Tobacco Taxes and Tobacco Use

- Higher taxes induce quitting, prevent relapse, reduce consumption and prevent starting.
- Estimates from high-income countries indicate that 10% rise in price reduces overall cigarette consumption by about 4%
 - About half of impact of price increases is on smoking prevalence (largely cessation); remainder is on average cigarette consumption among smokers
 - Effect of price greater on smoking among lower-income, less educated and younger populations

Total Cigarette Sales and Cigarette Prices, U.S., 1970-2003

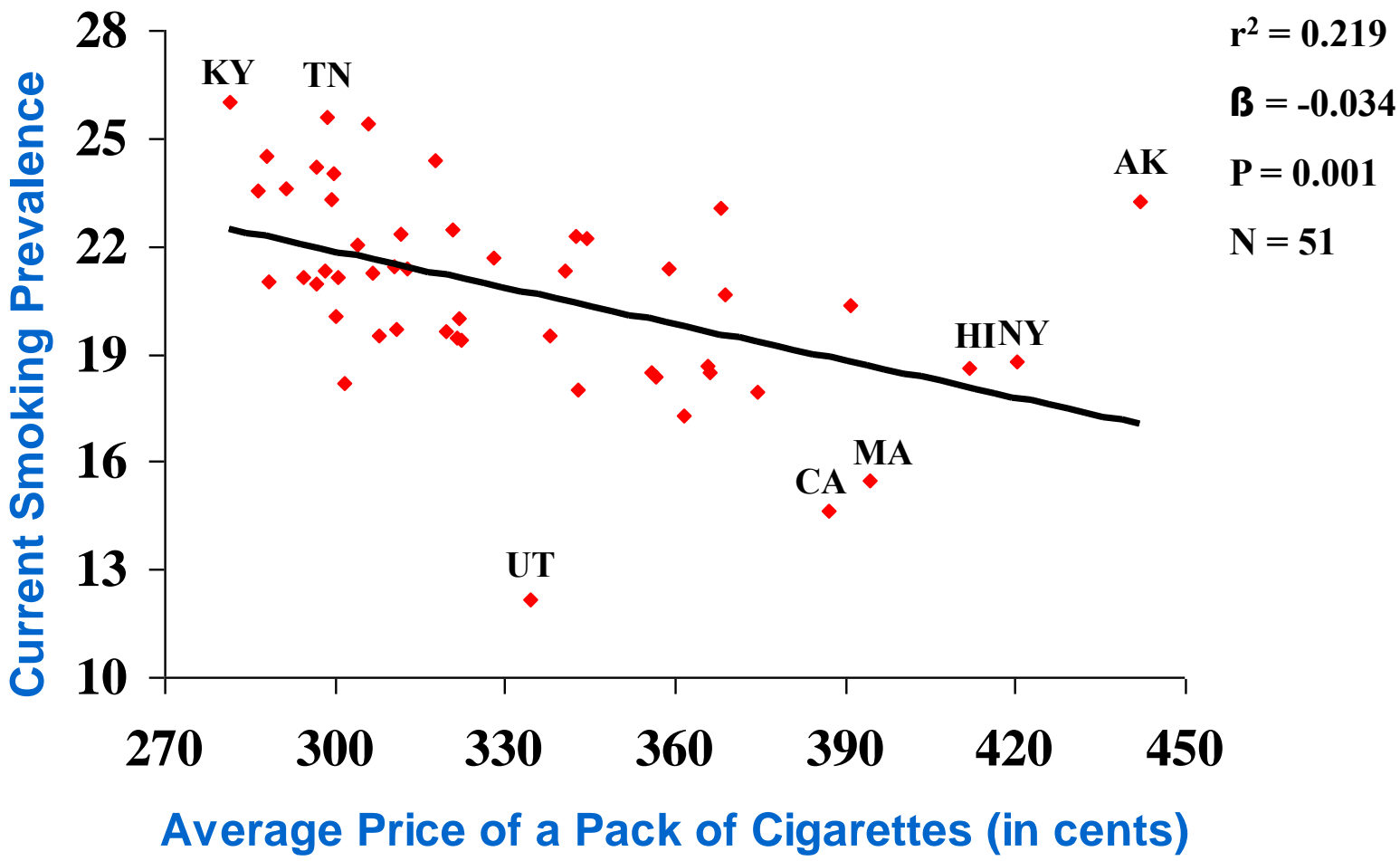


—■— Cigarette Sales (million packs) —◆— Real Cigarette Price



Source: *Tax Burden on Tobacco* and author's calculations

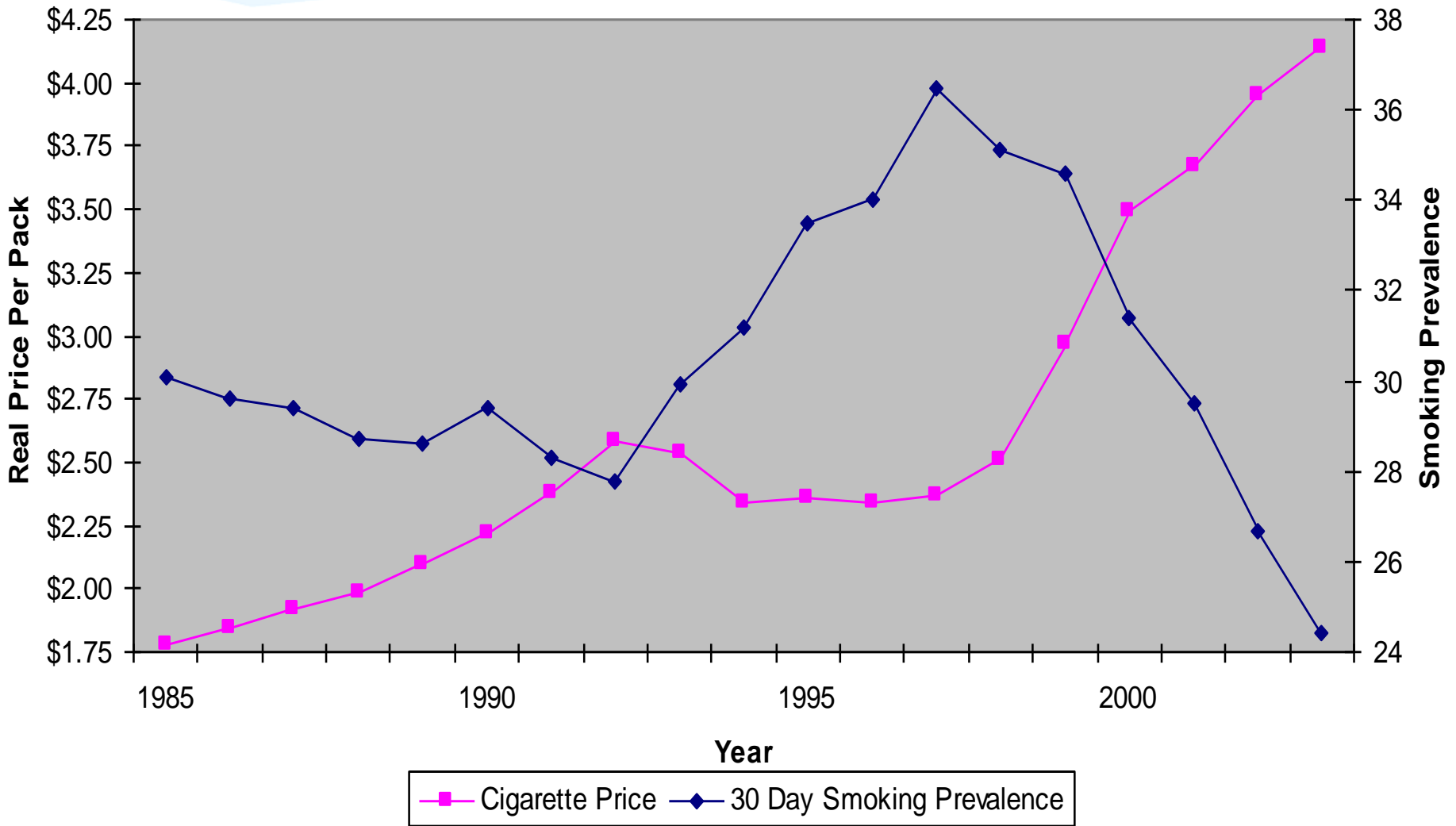
Current Smoking Prevalence among People Aged 25 Years or Older by the Average Price of a Pack of Cigarettes in 50 States and the District of Columbia, 2001/2002



Sources: 2001/2002 CPS-TUS; 2001 *Tax Burden On Tobacco*.

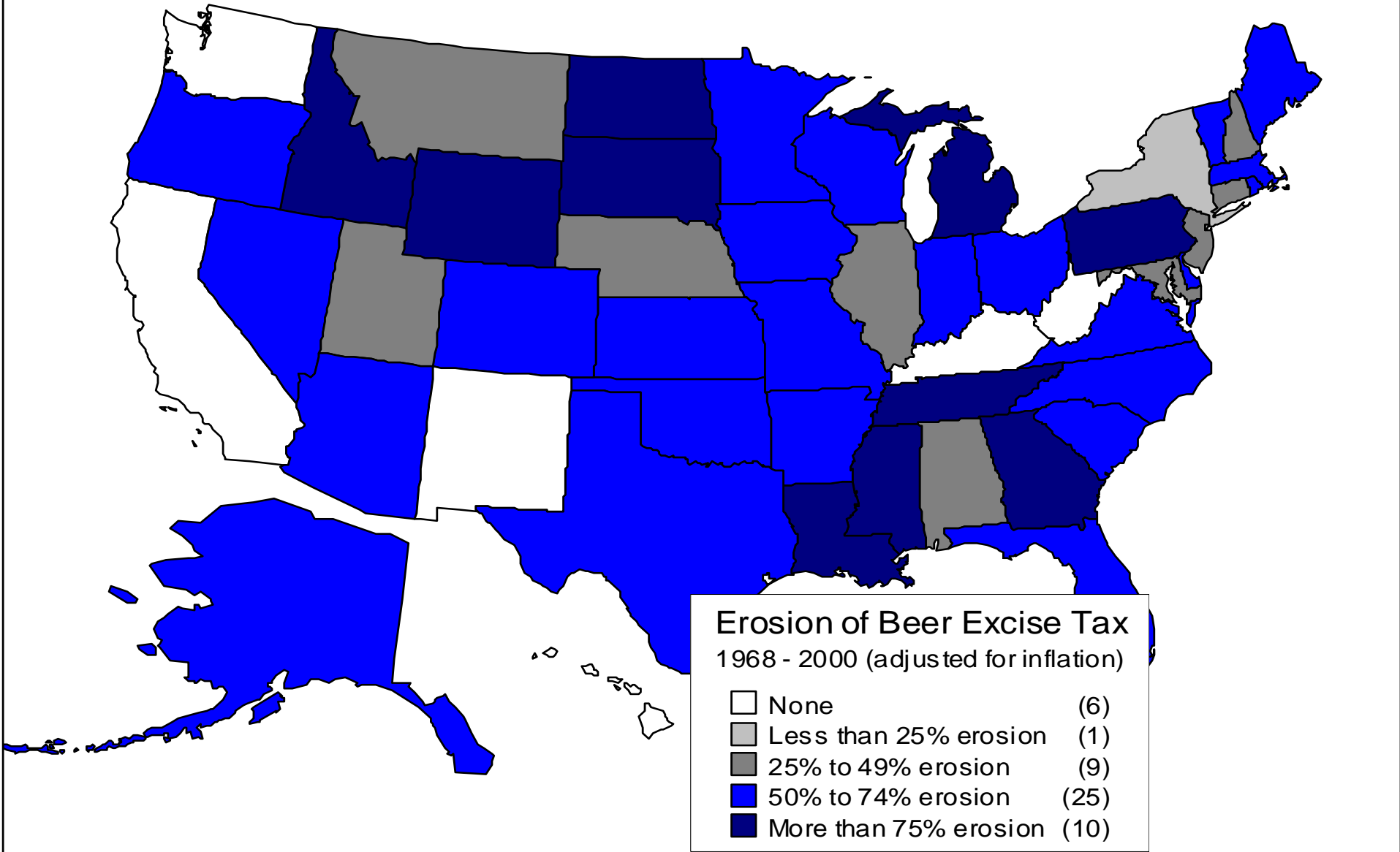
- Note: 1) Current smoking prevalence was based on crude estimate;
- 2) Price of cigarettes was adjusted for inflation, and it included generic brands of cigarettes.

12th Grade 30 Day Smoking Prevalence and Price, 1985-2003

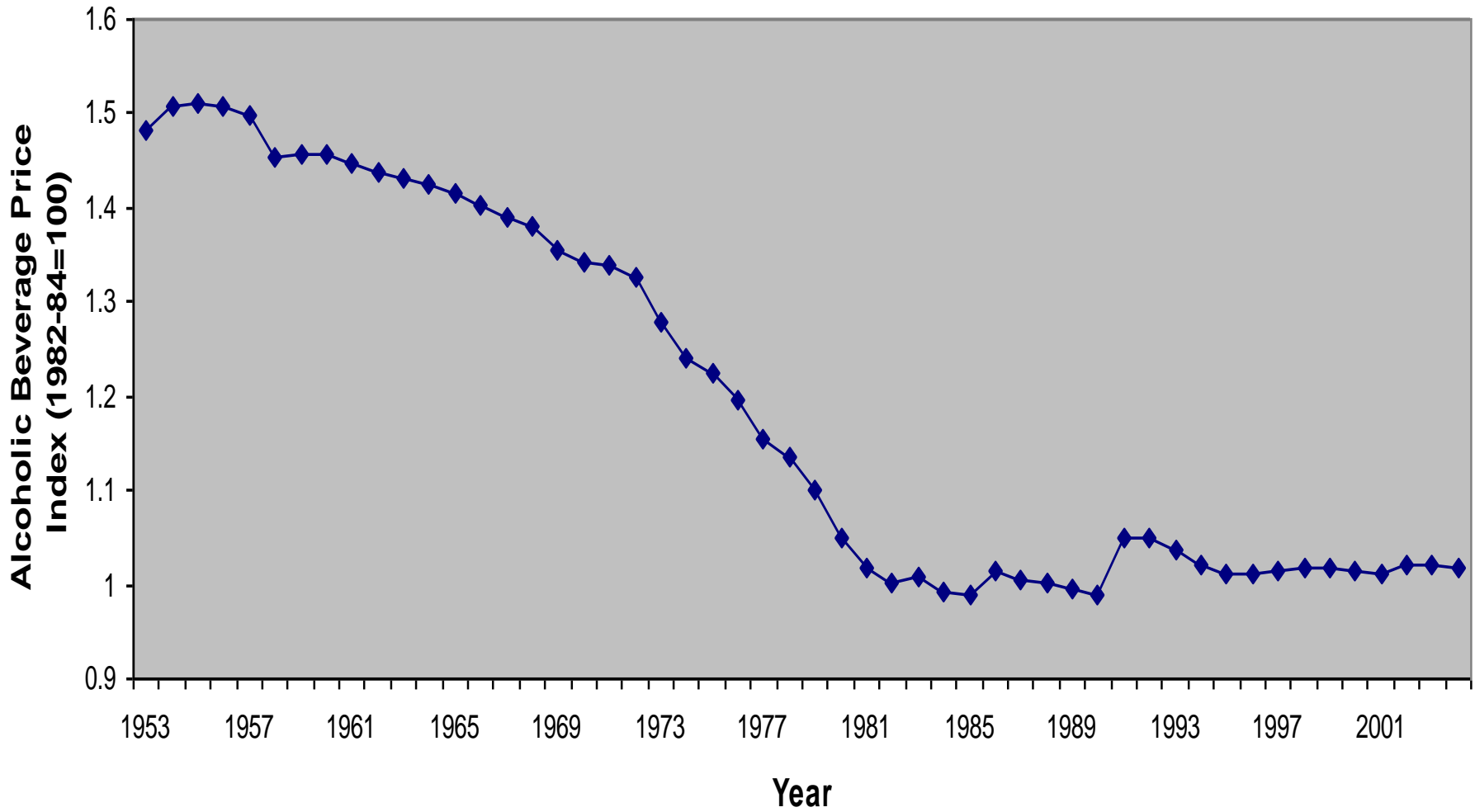


Source: Monitoring the Future, *Tax Burden on Tobacco*, and author's calculations

Erosion of Real Value of State Beer Excise Taxes, 1968-2000



Inflation Adjusted Alcoholic Beverage Prices 1953-2004



Source: U.S. Bureau of Labor Statistics and author's calculations

Alcohol Prices and Drinking

- Higher alcoholic beverage prices reduce drinking prevalence, frequency of drinking, number of drinks consumed per occasion, and prevalence/frequency of binge drinking
 - Spirits consumption most price responsive, beer consumption least price responsive
 - Limited evidence of substitutability across beverages
 - Youth drinking more responsive to price than adult drinking
- Higher alcoholic beverage prices reduce consequences of drinking
 - Drinking and driving and other fatal/non-fatal alcohol-related accidents
 - liver cirrhosis and other diseases caused by alcohol use/abuse
 - Homicide, suicide and other alcohol-related violence
 - Sexually transmitted disease rates
 - Poor educational outcomes

Myths About Economic Impact Control Policies

- Impact on Revenues?

Myth: Government revenues will fall as cigarette taxes rise, since people buy fewer cigarettes

Truth: Cigarette tax revenues rise with cigarette tax rates, even as consumption declines

- Every significant increase in federal and state cigarette taxes has resulted in significant increase in revenues

Same almost certainly the case with alcohol tax revenues and alcohol tax rates

Sources: Sunley, et al., 2000; World Bank, 1999

Myths About Economic Impact of Control Policies

- Impact on Jobs?

Myth: Higher tobacco taxes and tobacco control generally will result in substantial job losses

Truth: Money not spent on tobacco will be spent on other goods and services, creating alternative employment

- Many countries/states will see net gains in employment as tobacco consumption falls

Impact of alcohol control policies on jobs likely to be more diffuse than for tobacco control, but net impact expected to be minimal

Myths About Economic Impact of Control Policies

- Impact on Tax Evasion?

Myth: Tax evasion negates the effects of increases in tobacco taxes

Truth: Even in the presence of tax evasion, tax increases reduce consumption and raise revenues

- Other factors important in explaining level of tax evasion
- Effective policies exist to deter tax evasion

Tax evasion likely to be less significant for alcoholic beverages than for tobacco

Myths About Economic Impact of Tobacco Taxation and Tobacco Control

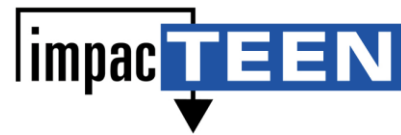
- Regressivity?

Myth: cigarette tax increases will negatively impact on the lowest income populations

Truth: Poor consumers are more responsive to price increases

- Should consider progressivity or regressivity of overall fiscal system
 - Any negative impact can be offset by use of new tax revenues to support programs targeting lowest income population or protect funding for current programs

Less of an issue for alcohol given that taxes tend to be less regressive given positive relationship between income and drinking



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Conclusions

Increases in tobacco product and alcoholic beverage prices through higher taxes and other policies effective in reducing tobacco/alcohol use/abuse and consequences

Arguments about economic consequences of increased taxation and other tobacco/alcohol control policies incorrect or overstated

Higher tobacco and alcoholic beverage prices will significantly improve public health and will not have negative economic impact