



RAISING CIGARETTE TAXES REDUCES SMOKING, ESPECIALLY AMONG KIDS (AND THE CIGARETTE COMPANIES KNOW IT)

The cigarette companies have opposed tobacco tax increases by arguing that raising cigarette prices would not reduce adult or youth smoking. But the companies' internal documents, disclosed in the tobacco lawsuits, show that they know very well that raising cigarette prices is one of the most effective ways to prevent and reduce smoking, especially among kids.

- Philip Morris: *Of all the concerns, there is one - taxation - that alarms us the most. While marketing restrictions and public and passive smoking [restrictions] do depress volume, in our experience taxation depresses it much more severely. Our concern for taxation is, therefore, central to our thinking*¹
- Philip Morris: *When the tax goes up, industry loses volume and profits as many smokers cut back.*²
- RJ Reynolds: *If prices were 10% higher, 12-17 incidence [the percentage of kids who smoke] would be 11.9% lower.*³
- Philip Morris: *It is clear that price has a pronounced effect on the smoking prevalence of teenagers, and that the goals of reducing teenage smoking and balancing the budget would both be served by increasing the Federal excise tax on cigarettes.*⁴
- Philip Morris: *Jeffrey Harris of MIT calculated . . . that the 1982-83 round of price increases caused two million adults to quit smoking and prevented 600,000 teenagers from starting to smoke . . . We don't need to have that happen again.*⁵
- Philip Morris: *A high cigarette price, more than any other cigarette attribute, has the most dramatic impact on the share of the quitting population . . . price, not tar level, is the main driving force for quitting.*⁶

[For more on cigarette company documents and price/tax increases see the 2002 study in the *Tobacco Control* journal, "Tax, Price and Cigarette Smoking: Evidence from the Tobacco Documents."⁷]

The cigarette companies have even publicly admitted the effectiveness of tax increases to deter smoking in their required filings with the U.S. Securities and Exchange Commission.

- Philip Morris: [I]ncreases in excise and similar taxes have had an adverse impact on sales of cigarettes. Any future increases, the extent of which cannot be predicted, may result in volume declines for the cigarette industry. [10-Q Report, June 30, 2002.]
- Loews/Lorillard Tobacco: *Significant increases in federal and state excise taxes on cigarettes . . . have, and are likely to continue to have, an adverse effect on cigarette sales.* [Loews (parent corporation of the Lorillard cigarette company) 10-K Report, March 31, 1999.]
- R.J. Reynolds: *[S]ubstantial increases in state and federal excise taxes on cigarettes. . . have had and will likely continue to have an adverse effect on cigarette sales.* [10-Q Report, August 1, 2001.]

Economic Research On Cigarette Tax Increases Reducing Smoking. Numerous economic studies in peer-reviewed journals have documented that cigarette tax or price increases reduce both adult and underage smoking. The general consensus is that every 10 percent increase in the real price of cigarettes reduces overall cigarette consumption by approximately three to five percent, reduces the number of young-adult smokers by 3.5 percent, and reduces the number of kids who smoke by six or seven percent.⁸ Research studies have also found that:

- Among all adults or all youths, cigarette price increases work even more effectively to prevent and reduce smoking among males, Blacks, Hispanics, pregnant women, and lower-income persons.⁹
- Cigarette price increases not only reduce youth smoking but also reduce the number of kids who smoke marijuana and the amount of marijuana consumed by continuing regular users.¹⁰

- Higher taxes on spit tobacco reduce its use, particularly among young males.¹¹

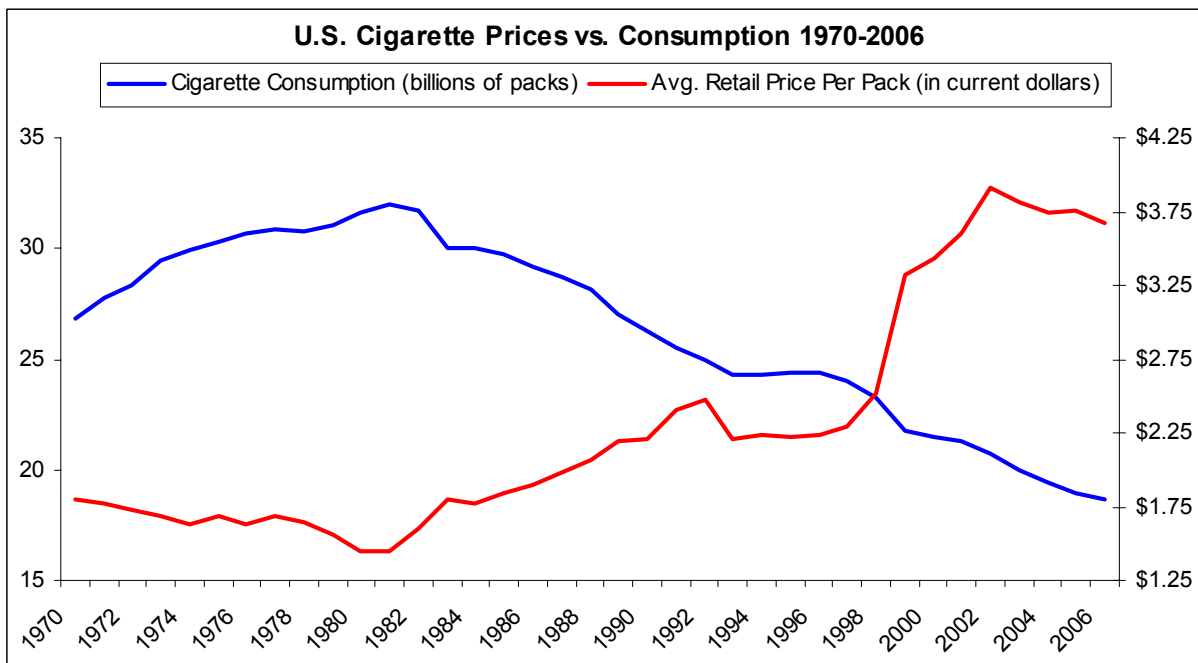
Recent State Experiences

In every single state that has significantly raised its cigarette tax rate, pack sales have gone down sharply.¹² While some of the decline in pack sales comes from interstate smuggling and from smokers avoiding in-state purchases and going to other lower-tax states or to the Internet to buy their cigarette, it is clear that reduced consumption from smokers quitting and cutting back plays a more powerful role. As shown in more detail, below, nationwide data – which counts both legal in-state purchases and the vast majority of packs purchased through cross-border, Internet, or smuggled sales – shows that overall packs sales go down as state cigarette tax increases push up the average national price.

In-state evidence shows that state cigarette tax increases are prompting many smokers to quit or cutback. For example, after the most recent cigarette tax increases in Michigan (from \$1.25 to \$2.00 per pack) and Montana (\$0.70 to \$1.70), smoker calls to the state smoking quitlines skyrocketed. In the six months after the tax increase, the Michigan quitline received 3,100 calls, compared to only 550 in the previous six months; and in Montana more than 2,000 people called in the first 20 days after the tax increase, compared to only 380 calls per month previously.¹³ Likewise, in Texas and Iowa, which each increased their cigarette taxes by \$1.00 in 2007, the number of calls to the state quitlines have been much higher compared to the year before.¹⁴ It is also clear that these efforts to quit by smokers after tax increases translate directly into lower future smoking rates. In Washington State, for example, adult smoking from the year before its 60-cent cigarette tax increase in 2002 to the year afterwards declined from 22.6 to 19.7 percent, reducing the number of adult smokers in the state by more than 100,000, despite overall population increases.¹⁵

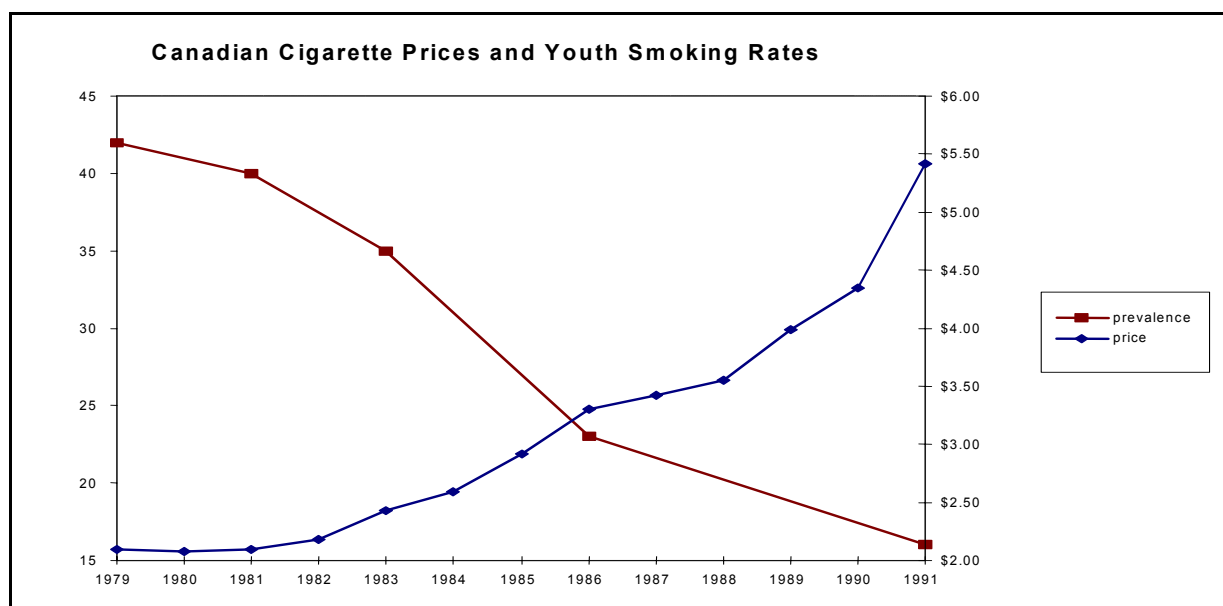
Increasing U.S. Cigarette Prices and Declining Consumption

Although there are many other factors involved, comparing the trends in cigarette prices and overall U.S. cigarette consumption from 1970 to 2006 shows that there is a strong correlation between increasing prices and decreasing consumption (see chart below).



While U.S. cigarette prices are largely controlled by the cigarette companies' price-setting decisions, from 1970 to 2006, the federal tax on cigarettes also increased from eight cents to 39 cents per pack and the average state cigarette tax increased from 11 to 94.7 cents per pack during that time period. Without these federal and state tax increases, U.S. cigarette prices would be much lower and U.S. smoking levels would be much higher.

The Canadian Experience. From 1979 to 1991 real prices in Canada increased from \$2.09 to \$5.42 and smoking among 15 to 19 year olds fell from 42 to 16 percent (see chart below). As the President of the Canadian Tobacco Manufacturers Council then admitted to a legislative committee, “there is no question that consumption is down measurably over the last five years, and there is no question in our minds that taxes have been a significant factor.”¹⁶ But when Canada subsequently reduced its cigarette taxes (to reduce tax-avoidance smuggling supported by the cigarette companies), youth smoking immediately increased for the first time in nearly fifteen years.¹⁷ Subsequent Canadian cigarette tax increases have reduced youth smoking (without any revival of the past cigarette smuggling problems).



Expert Conclusions on Cigarette Prices and Smoking Levels

- The 2000 U.S. Surgeon General’s Report, *Reducing Tobacco Use*, found that increasing the price of tobacco products would decrease the prevalence of tobacco use, particularly among kids and young adults, and that tobacco tax increases would lead to “substantial long-term improvements in health.” Its review of existing research concluded that raising tobacco taxes is one of the most effective tobacco prevention and control strategies.¹⁸
- The 1999 World Bank report *Curbing The Tobacco Epidemic: Governments and the Economics of Tobacco Control* carefully evaluated existing research and data, worldwide, and concluded that “the most effective way to deter children from taking up smoking is to increase taxes on tobacco. High prices prevent some children and adolescents from starting and encourage those who already smoke to reduce their consumption.”¹⁹
- Wall Street tobacco industry analysts have long recognized the powerful role increased cigarette taxes and rising cigarette prices play in reducing U.S. smoking levels. For example, a December 1998 “Sensitivity Analysis on Cigarette Price Elasticity” by Credit Suisse First Boston Corporation settled on a “conservative” estimate that cigarette consumption will decline by four percent for every 10 percent increase in price.
- In its 1998 report, *Taking Action to Reduce Tobacco Use*, the National Academy of Sciences’ Institute of Medicine concluded that “the single most direct and reliable method for reducing consumption is to increase the price of tobacco products, thus encouraging the cessation and reducing the level of initiation of tobacco use.”²⁰
- A 1993 National Cancer Institute Expert Panel found that “a substantial increase in tobacco excise taxes may be the single most effective measure for decreasing tobacco consumption,” and “an excise tax reduces consumption by children and teenagers at least as much as it reduces consumption by adults.”

For more information, please see the Campaign's special website page on tobacco taxes at <http://tobaccofreekids.org/reports/prices> or the Campaign's many factsheets on state tobacco tax increases at <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18> or on federal tobacco tax increases at <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=11>.

¹ Philip Morris document, "General Comments on Smoking and Health," Appendix I in *The Perspective of PM International on Smoking and Health Initiatives*, March 29, 1985 (Bates numbers 2023268329/8348), available at <http://legacy.library.ucsf.edu/index.html>.

² Ellen Merlo, Senior Vice President of Corporate Affairs, Philip Morris, 1994 draft speech to the Philip Morris USA Trade Council, <http://legacy.library.ucsf.edu/tid/oyf35e00>.

³ R.J. Reynolds Executive D. S. Burrows, "Estimated Change In Industry Trend Following Federal Excise Tax Increase," RJR Document No. 501988846 -8849, September 20, 1982, www.rjrtdocs.com.

⁴ Philip Morris Research Executive Myron Johnston, "Teenage Smoking and the Federal Excise Tax on Cigarettes," PM Document No. 2001255224, September 17, 1981, www.pmdocs.com.

⁵ Philip Morris Executive Jon Zoler, "Handling An Excise Tax Increase," PM Document No. 2022216179, September 3, 1987, www.pmdocs.com.

⁶ Philip Morris Executive Claude Schwab, "Cigarette Attributes and Quitting," PM Doc. 2045447810, March 4, 1993, www.pmdocs.com.

⁷ Chaloupka, F, et al., "Tax, Price and Cigarette Smoking: Evidence from the Tobacco Documents and implications for tobacco company marketing strategies," *Tobacco Control* 11: 62-72, March 2002, http://tc.bmjournals.com/cgi/content/full/11/suppl_1/i62.

⁸ See, e.g., Chaloupka, F, "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine and Tobacco Research*, 1999; other price studies at <http://tigger.uic.edu/~fjc/>; Tauras, J, "Public Policy and Smoking Cessation Among Young adults in the United States," *Health Policy* 6*:321-32, 2004; Tauras, J, et al., "Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis," Bridging the Gap Research, ImpacTeen, April 24, 2001, and other price studies at <http://www.impacteen.org/researchproducts.htm>. Chaloupka, F & Pacula, R, *An Examination of Gender and Race Differences in Youth Smoking Responsiveness to Price and Tobacco Control Policies*, National Bureau of Economic Research, Working Paper 6541, April 1998, <http://tigger.uic.edu/~fjc/>; Emery, S, et al., "Does Cigarette Price Influence Adolescent Experimentation?," *Journal of Health Economics* 20:261-270, 2001; Evans, W & Huang, L, *Cigarette Taxes and Teen Smoking: New Evidence from Panels of Repeated Cross-Sections*, working paper, April 15, 1998, www.bsos.umd.edu/econ/evans/wrkpap.htm; Harris, J & Chan, S, "The Continuum-of-Addiction: Cigarette Smoking in Relation to Price Among Americans Aged 15-29," *Health Economics Letters* 2(2):3-12, February 1998, www.mit.edu/people/jeffrey.

⁹ See, e.g., U.S. Centers for Disease Control and Prevention (CDC), "Responses to Cigarette Prices By Race/Ethnicity, Income, and Age Groups – United States 1976-1993," *Morbidity and Mortality Weekly Report (MMWR)* 47(29):605-609 July 31, 1998, www.cdc.gov/mmwr/; Chaloupka, FJ & Pacula, RL, *An Examination of Gender and Race Differences in Youth Smoking Responsiveness to Price and Tobacco Control Policies*, NBER Working Paper No. W6541, April 1998; Ringel, J & Evans, W, "Cigarette Taxes and Smoking During Pregnancy," *American Journal of Public Health*, 2001 [10% increase in cigarette prices produces 7% decline in smoking by pregnant women].

¹⁰ Chaloupka, F, et al., *Do Higher Cigarette Prices Encourage Youth to Use Marijuana?*, National Bureau of Economic Research, Working Paper No. 6939, February 1999, <http://tigger.uic.edu/~fjc/>; Farrelly, M, et al., "The Joint Demand for Cigarettes and Marijuana: Evidence from the National Household Surveys on Drug Abuse," *Journal of Health Economics* 20:51-68, 2001; See also, Campaign for Tobacco-Free Kids (TFK) Factsheet, *Smoking and Other Drug Use*, <http://tobaccofreekids.org/research/factsheets/pdf/0106.pdf>.

¹¹ Chaloupka, F, Tauras, J, & Grossman, M, "Public Policy and Youth Smokeless Tobacco Use," *Southern Economic Journal* 64(2):503-16, October 1997, <http://tigger.uic.edu/~fjc/>.

¹² TFK Factsheet, *Raising State Cigarette Taxes Always Increases State Revenues (and Always Reduces Smoking)*, <http://tobaccofreekids.org/research/factsheets/pdf/0098.pdf>.

¹³ "Tobacco Tax Pushing Smokers to Quit, State Says," *WMMT News*, January 26, 2005; Ecke, R, "Phone Lines Smokin' With Quit Line Calls," *Great Falls Tribune*, January 26, 2005.

¹⁴ Souza, M, "Thank you for Smoking," *Longview-News Journal*, April 22, 2007; "Calls to Quitline Iowa double after cigarette tax raised," *AP*, March 22, 2007.

¹⁵ Centers for Disease Control & Prevention (CDC), Current Adult Smokers, Behavioral Risk Factor Surveillance System (BRFSS).

¹⁶ Bill Neville, President, Canadian Tobacco Manufacturers Council, testifying before Legislative Committee F on Bill C-10, *An Act to Amend the Excise Tax Act and the Excise Act*, September 26, 1991.

¹⁷ Canadian Cancer Society, et al., Surveying the Damage: Cut Rate Tobacco Products and Public Health in the 1990s, October 1999, www.nsra-adnf.ca/english/oct99taxrep.html.

¹⁸ Available at www.cdc.gov/tobacco/sgrpage.htm.

¹⁹ Available at <http://www1.worldbank.org/tobacco/reports.htm>.

²⁰ Available at www.nap.edu/books/0309060389/html/index.html.