

# Influencing Tax Policies for Tobacco Control

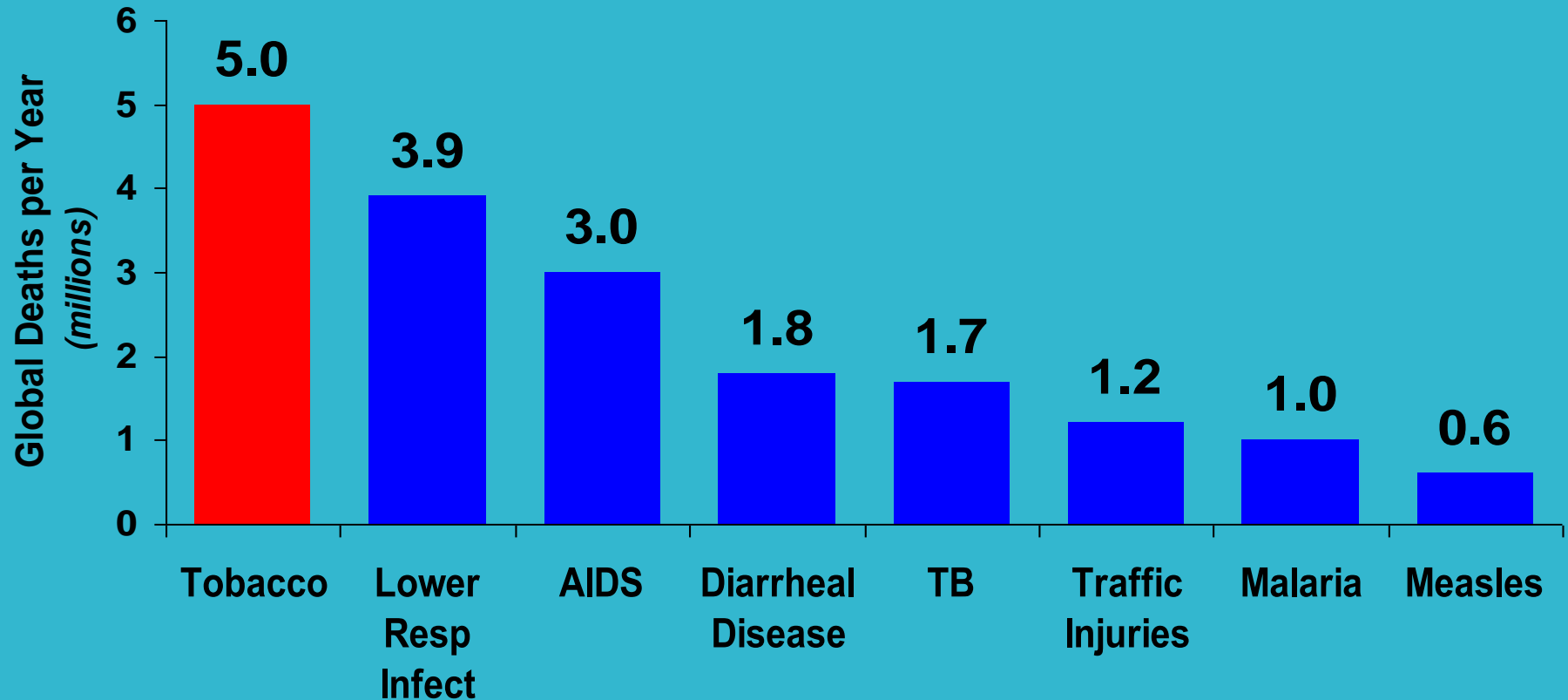
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Commissioner

New York City Department of Health and Mental Hygiene

*April 2, 2008*

# Tobacco Is Now the World's Leading Single Agent of Death



**Unless urgent action is taken, tobacco will soon kill twice as many people and could kill 1 billion people this century**

# 1 in 4 Adults Smoke

## *>1 billion smokers worldwide*

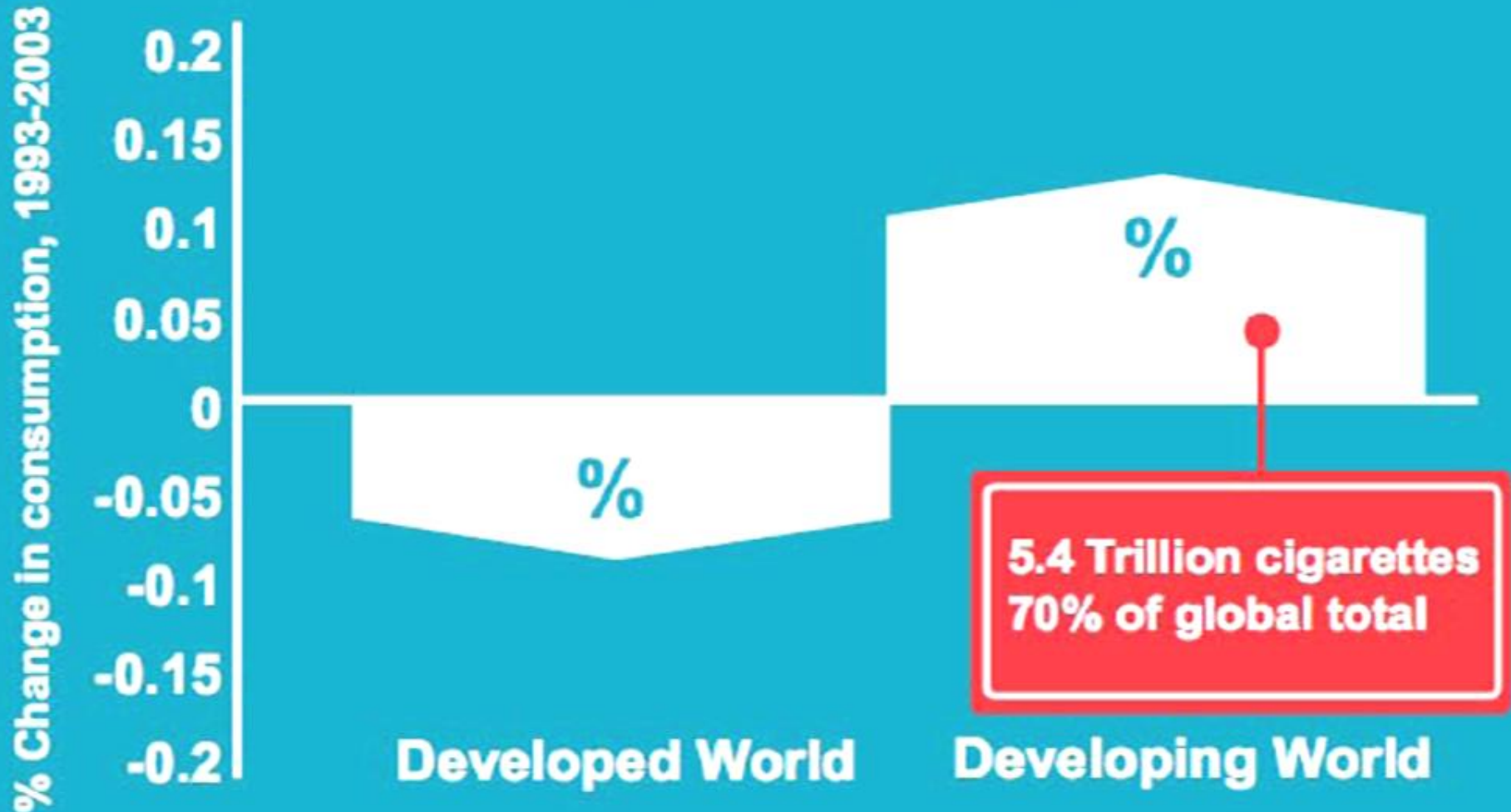
- Best estimate
  - Current data on adult smoking prevalence of uneven quality
- Prevalence varies widely
  - Among countries and subgroups (e.g., men/women, rural/urban)
- ~80% of smokers live in 24 countries
  - 2/3 of smokers live in 15 low/middle income countries

# Significant Burden of Tobacco Use in India, South Asia

- India: ~**128 M** smokers
  - 11% of world total
- India, Bangladesh, Pakistan: ~**165 M** smokers
  - 14% of world total
- All South Asia:\* ~**182 M** smokers
  - 16% of world total
- Overall adult prevalence in region: ~18%

*\*South Asia (World Bank categorization): Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.*

# Tobacco Consumption: Decreasing in Developed World, Increasing in Developing World



# Bloomberg: Initial Donation

- \$125 million over two years, more than doubling total prior tobacco control aid
- Target 15 countries where about 2/3 of the world's smokers live: China, **India**, Indonesia, Russia, **Bangladesh**, Brazil, Mexico, Turkey, **Pakistan**, Egypt, Ukraine, Philippines, Thailand, Vietnam, Poland

# Bloomberg Initiative to Reduce Tobacco Use

## *Key Partner Organizations*

- Campaign for Tobacco Free Kids
- Centers for Disease Control and Prevention Foundation
- Johns Hopkins Bloomberg School of Public Health
- World Health Organization
- World Lung Foundation/International Union Against Tuberculosis and Lung Disease

***Tobacco control  
interventions are  
proven to work....***

***yet few countries  
use them***



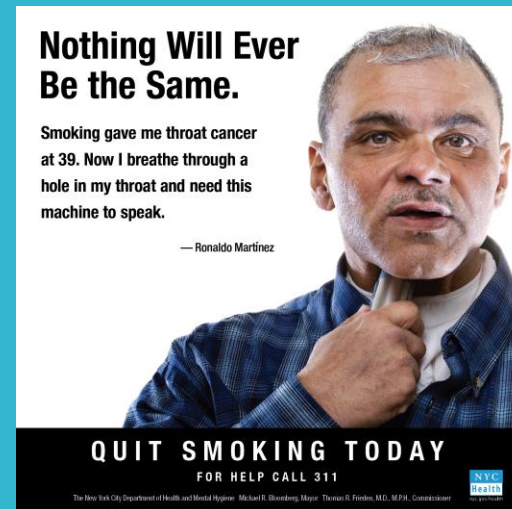
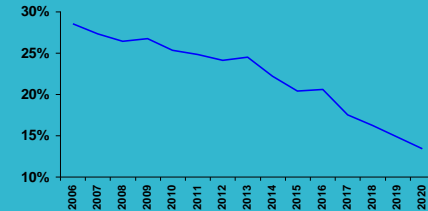
**mpower**



- Monitor** tobacco use and prevention policies
- Protect** people from tobacco smoke
- Offer** help to quit tobacco use
- Warn** about the dangers of tobacco
- Enforce** bans on tobacco advertising, promotion and sponsorship
- Raise** taxes on tobacco

# MPOWER: Six Policies to Reverse the Tobacco Epidemic

- **M**onitor tobacco use and prevention policies
- **P**rotect people from tobacco smoke
- **O**ffer help to quit tobacco use
- **W**arn about the dangers of tobacco
- **E**nforce bans on tobacco advertising, promotion and sponsorship
- **R**aise taxes on tobacco



# Increase Tobacco Taxes

- Price increases are, by far, the most effective way to reduce tobacco use
  - Children/young adults and people with low income are most price sensitive
- Tobacco taxes generally favored by public
  - Earmarks for tobacco control and other health/social programs further increase popularity
- Despite tobacco industry claims, higher taxes do not reduce government revenues

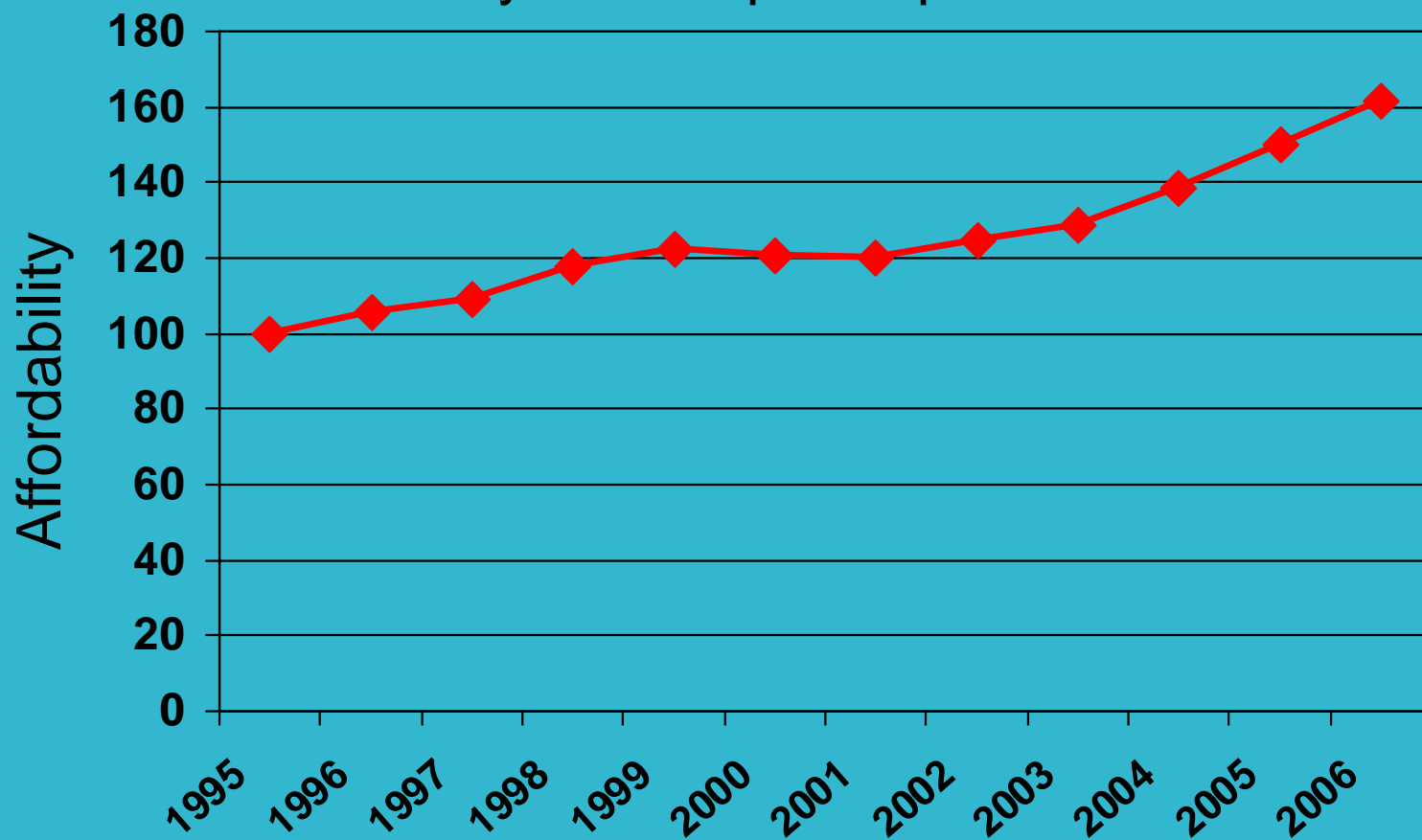
# Set an Effective Tax Rate

- Set target for reduction in smoking prevalence
- Determine price elasticity of tobacco consumption and prevalence
  - In established market economies, 10% price increase results in 2.5-5% drop in consumption
    - *Roughly double this amount in developing countries*
  - Prevalence elasticity estimated at about half of consumption elasticity
- Establish tax rate
  - To remain effective, must periodically adjust tax for inflation and consumer purchasing power

# Purchasing Power is Steadily Increasing

## *Affordability of Tobacco Products in Viet Nam, 1996- 2006*

Affordability = GDP per capita / CPI tobacco



# Tobacco Tax as a Commitment Device

*Gruber and Köszegi*

- Individuals experience conflict between short-term preferences and long-run costs
  - Satisfying tobacco craving vs. shorter life as a smoker*
- Individuals heavily discount the future relative to the present, but do not discount between future periods as much, creating a self-control problem
- Tobacco taxes address this problem
  - Taxes allow consumers to avoid making sub-optimal consumption decisions*

# Tobacco Tax is Likely Progressive

- The more responsive consumers are to a price increase, the lower their tax incidence
- As low-income groups are more price sensitive, tobacco taxation becomes progressive

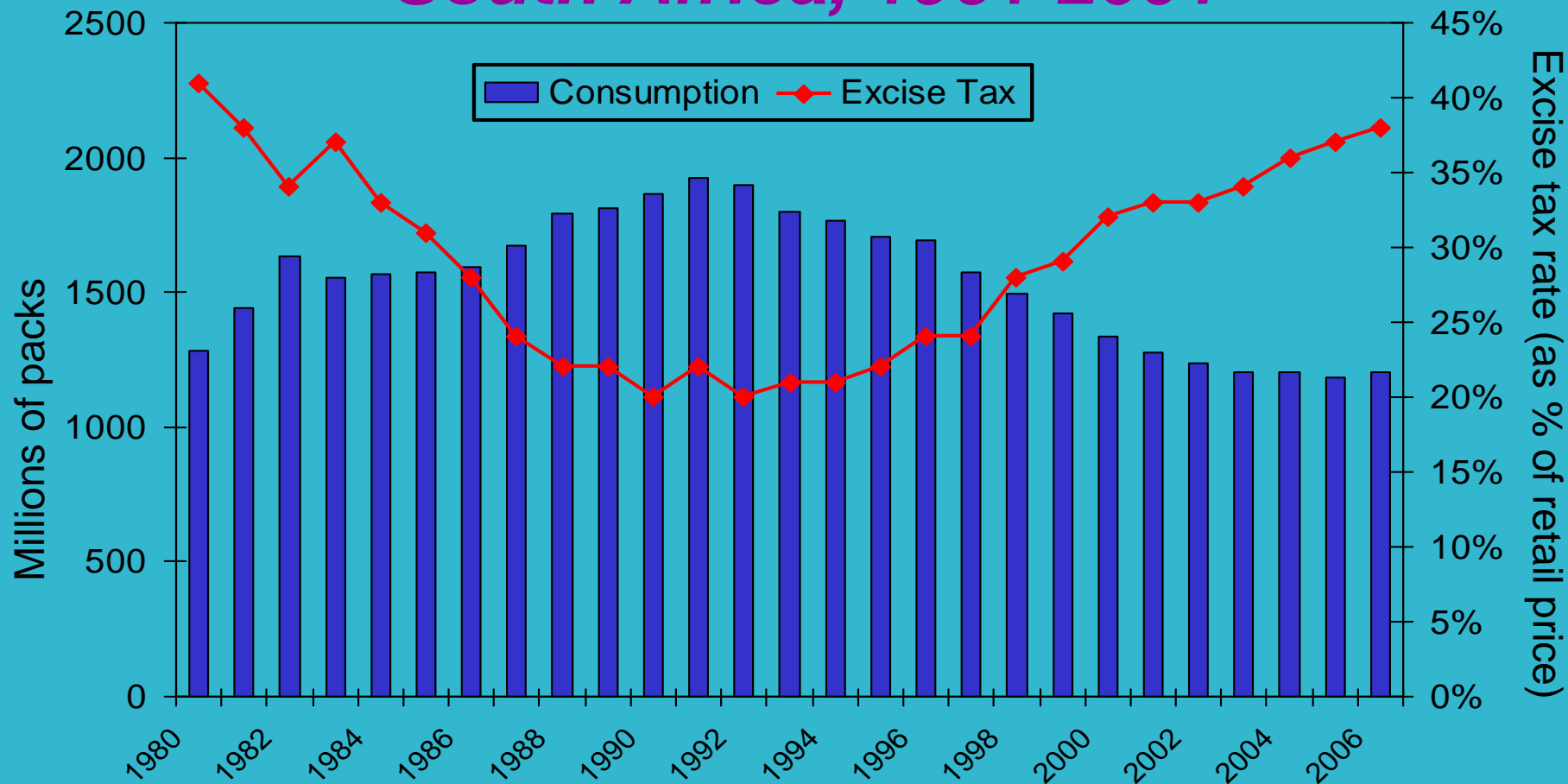
*“...Tobacco taxes are not regressive so long as the poor are sufficiently more price sensitive in their tobacco consumption decisions.”*

*“Governments can raise significant revenue through higher cigarette taxes without placing a large net burden on the poor.”*

***Gruber and Kőszegi, 2008***

# Tobacco Consumption Decreases as Price Increases

*Cigarette consumption and excise tax rate, South Africa, 1961-2001*





# Pro-Tax Forces

- Funds for government (even if consumption and prevalence decrease)
- Link between tobacco and poverty, esp. in the S. Asia region
  - India: Households spending more on tobacco spent less on food and education and more on health care
  - Bangladesh: Male smokers spend >2x as much on cigarettes as on clothing, housing, health and education *combined*
    - 350 children's lives/day could be saved if money spent on tobacco were spent on food

# Challenges to Tobacco Tax

Challenge	Response
Government resistance to tax/price increase	<ul style="list-style-type: none"><li>• Counter myths about:<ul style="list-style-type: none"><li>–Importance of tobacco industry to the country's economy</li><li>–Negative economic impact of tobacco control policies in general</li></ul></li><li>• Model public health impact and revenue generated by a tax increase</li><li>• Show that tobacco taxes are popular</li></ul>
Flooding markets with cheap cigarettes even if tax raised	<b>Regulate</b> and implement minimum specific (per pack) tax, indexed to inflation and corrected for increasing purchasing power

# Challenges to Tobacco Tax, cont.

<b>Challenge</b>	<b>Response</b>
Brand substitution	Implement specific tobacco taxes
Product substitution	Implement uniform taxes on all tobacco products
Inflation	Index tobacco tax increases for inflation
Increasing purchasing power	Correct tobacco tax for increasing purchasing power

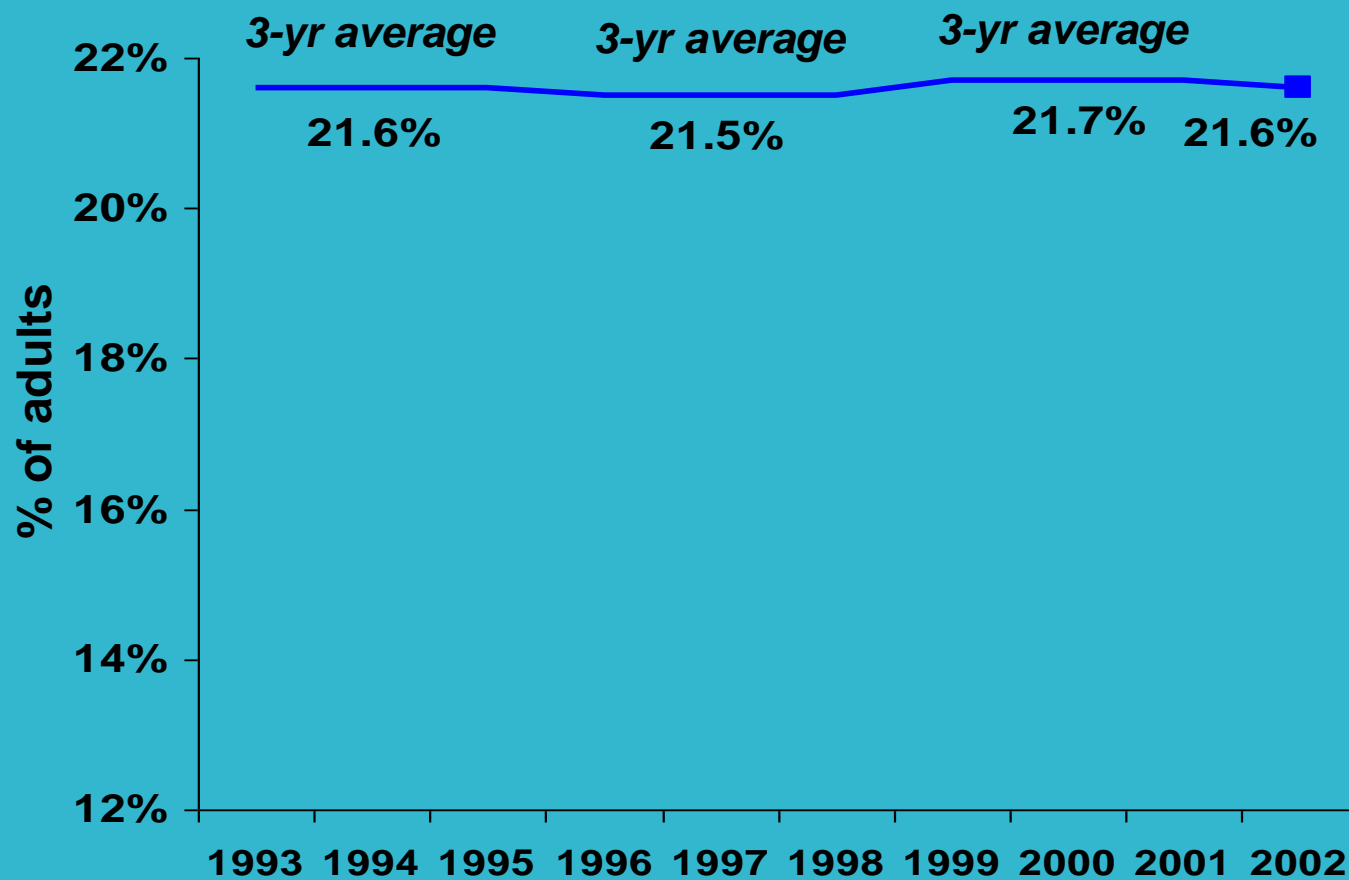
# Challenges to Tobacco Tax, cont.

Challenge	Response
Difficulty with implementation and enforcement	<ul style="list-style-type: none"><li>• Enact tax policies that are easier to administer</li><li>• Eliminate favored status of small producers and other exemptions</li><li>• Ban unbranded tobacco products, implement tax stamps, and mandate warnings in local language(s)</li><li>• Strengthen tax administration</li><li>• Support strong illicit tobacco trade treaty</li></ul>
Illicit trade	<p>All of the above, plus:</p> <ul style="list-style-type: none"><li>• Support strong illicit tobacco trade treaty</li></ul>

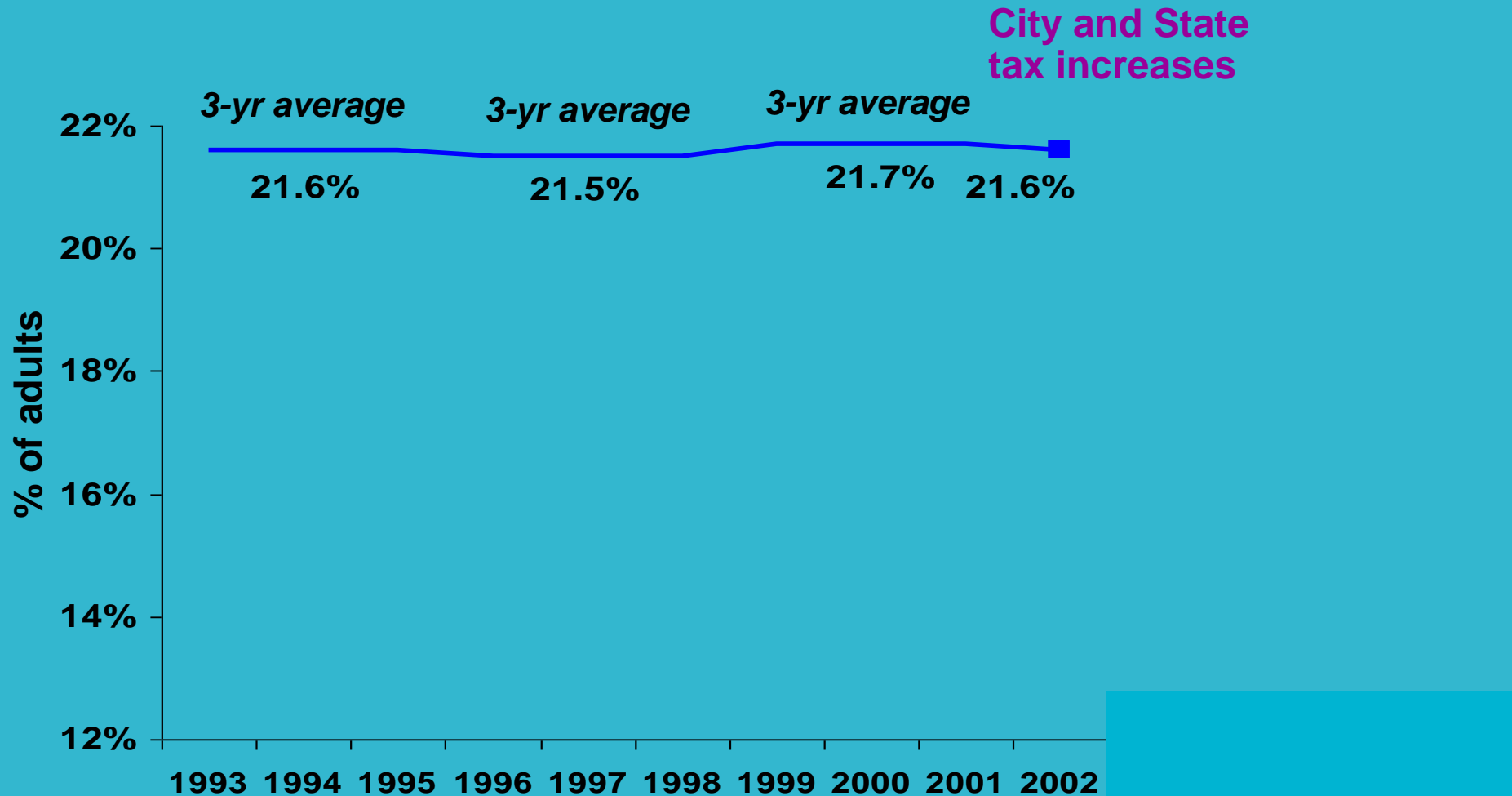
# Tobacco Control in New York City



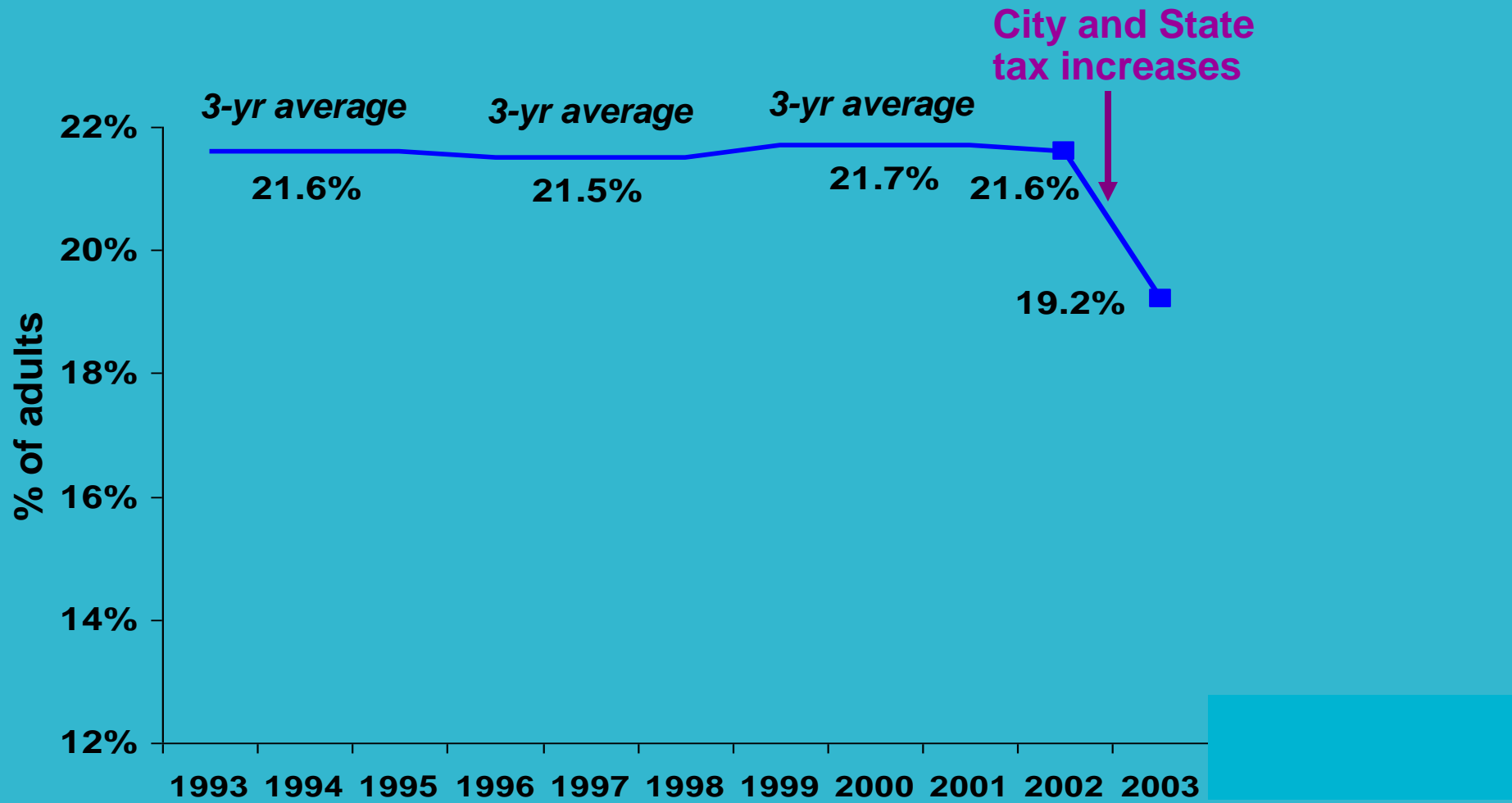
# Prevalence of Smoking Among Adults in NYC, 1993-2002



# In 2002, Tobacco Taxes Increased in NYC

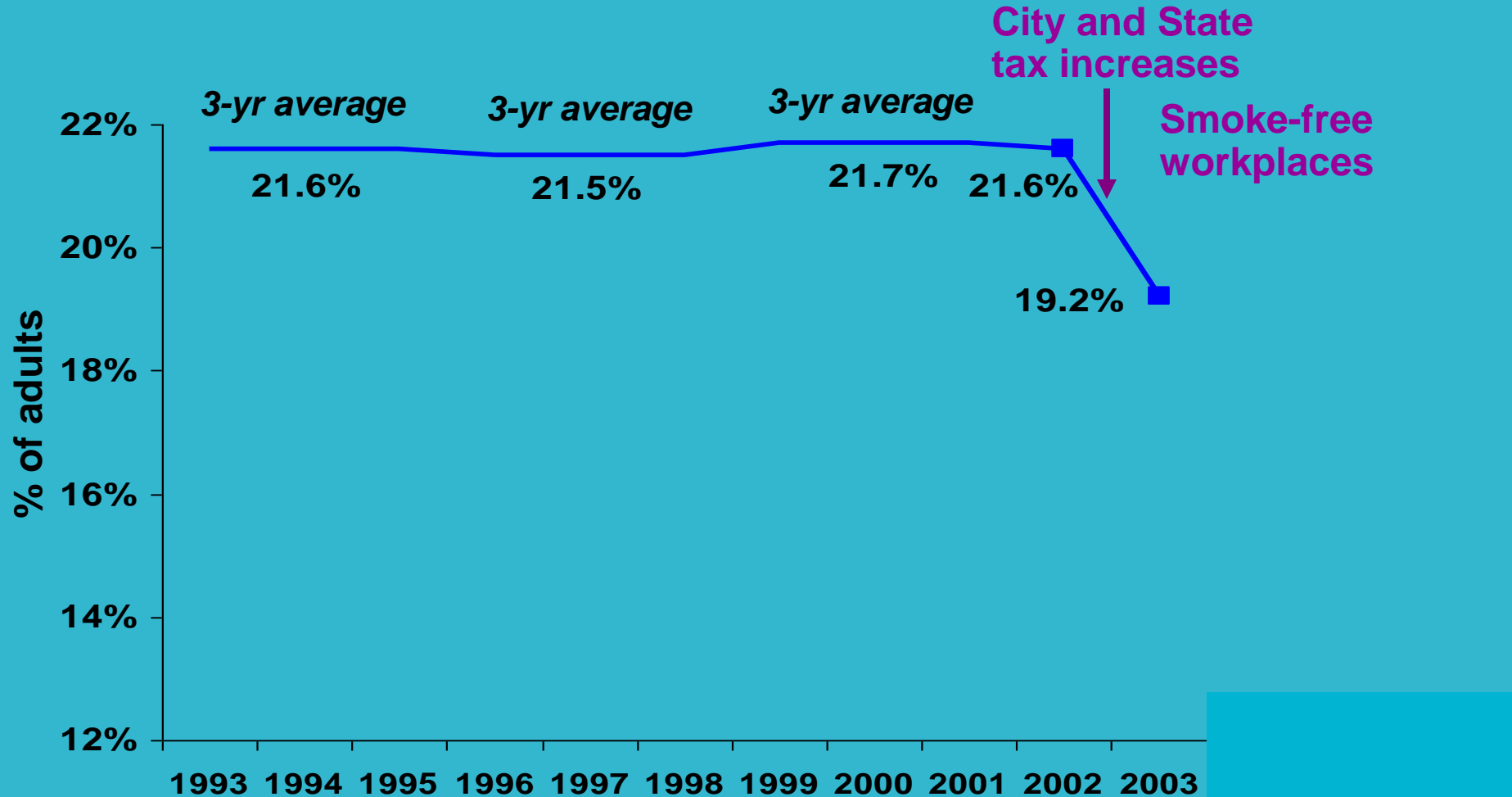


# By 2003, Smoking had Decreased for the First Time in a Decade

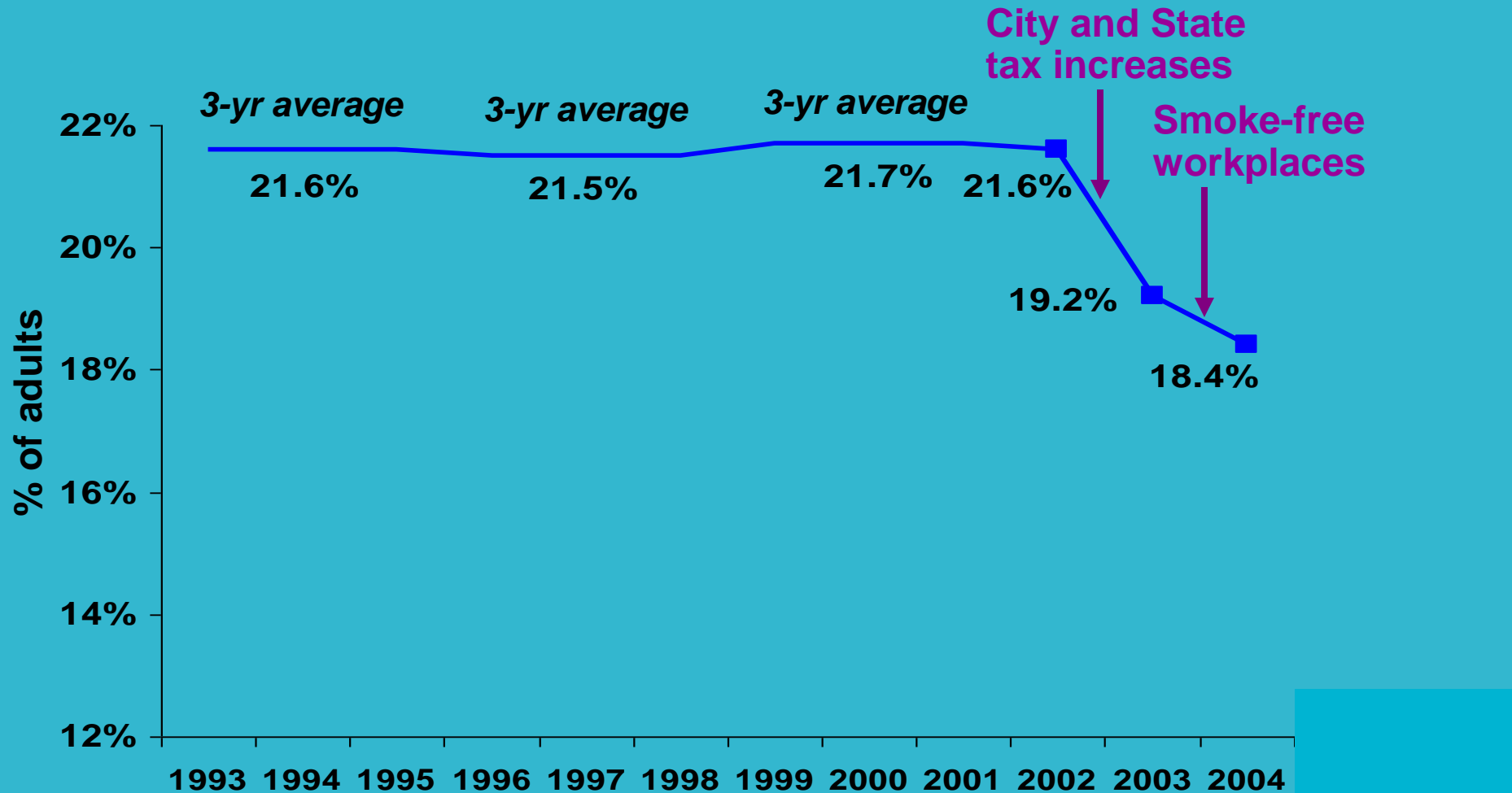




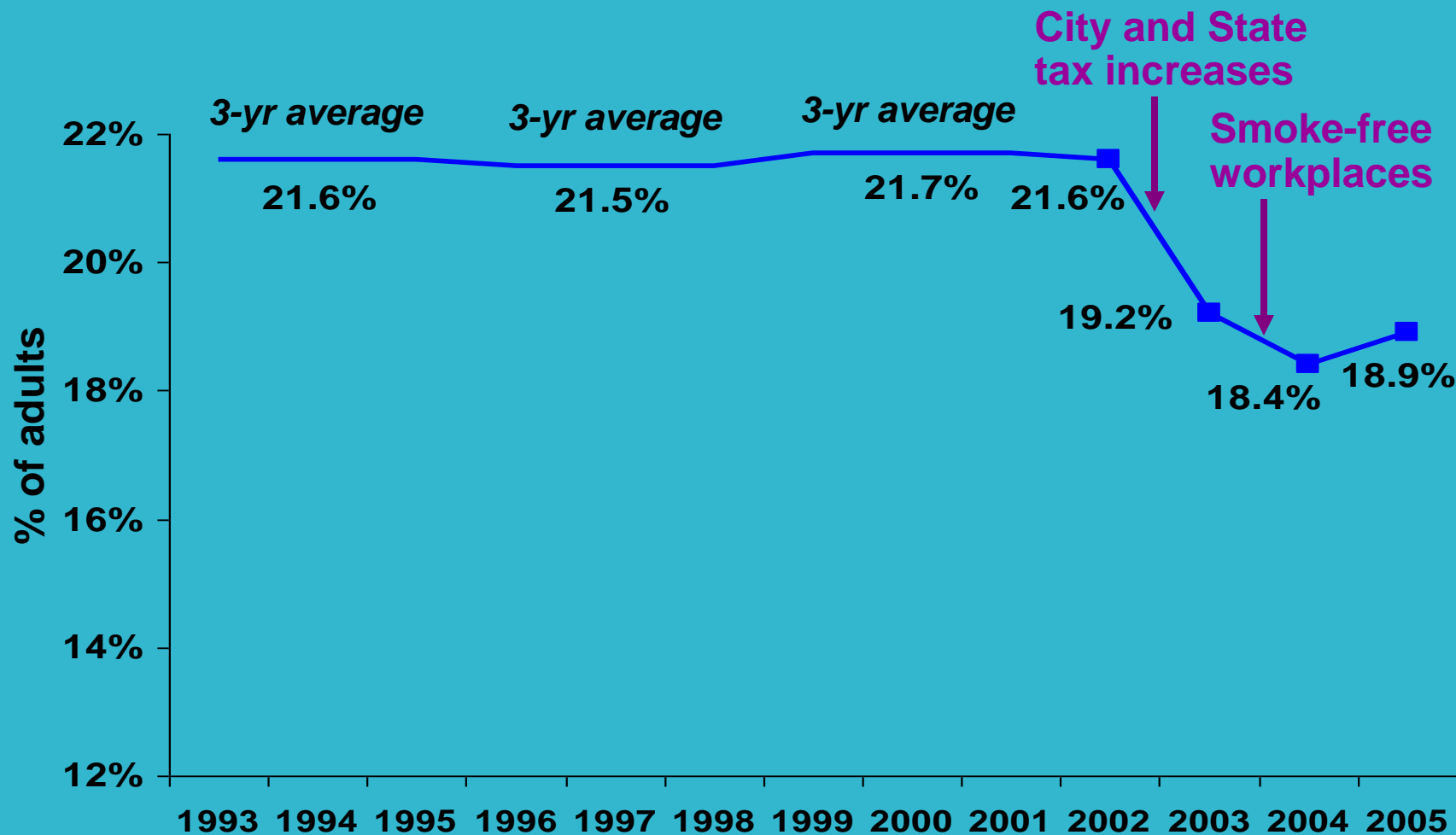
# In 2003, Virtually All Indoor Workplaces, Including Bars & Restaurants, Went Smoke-Free



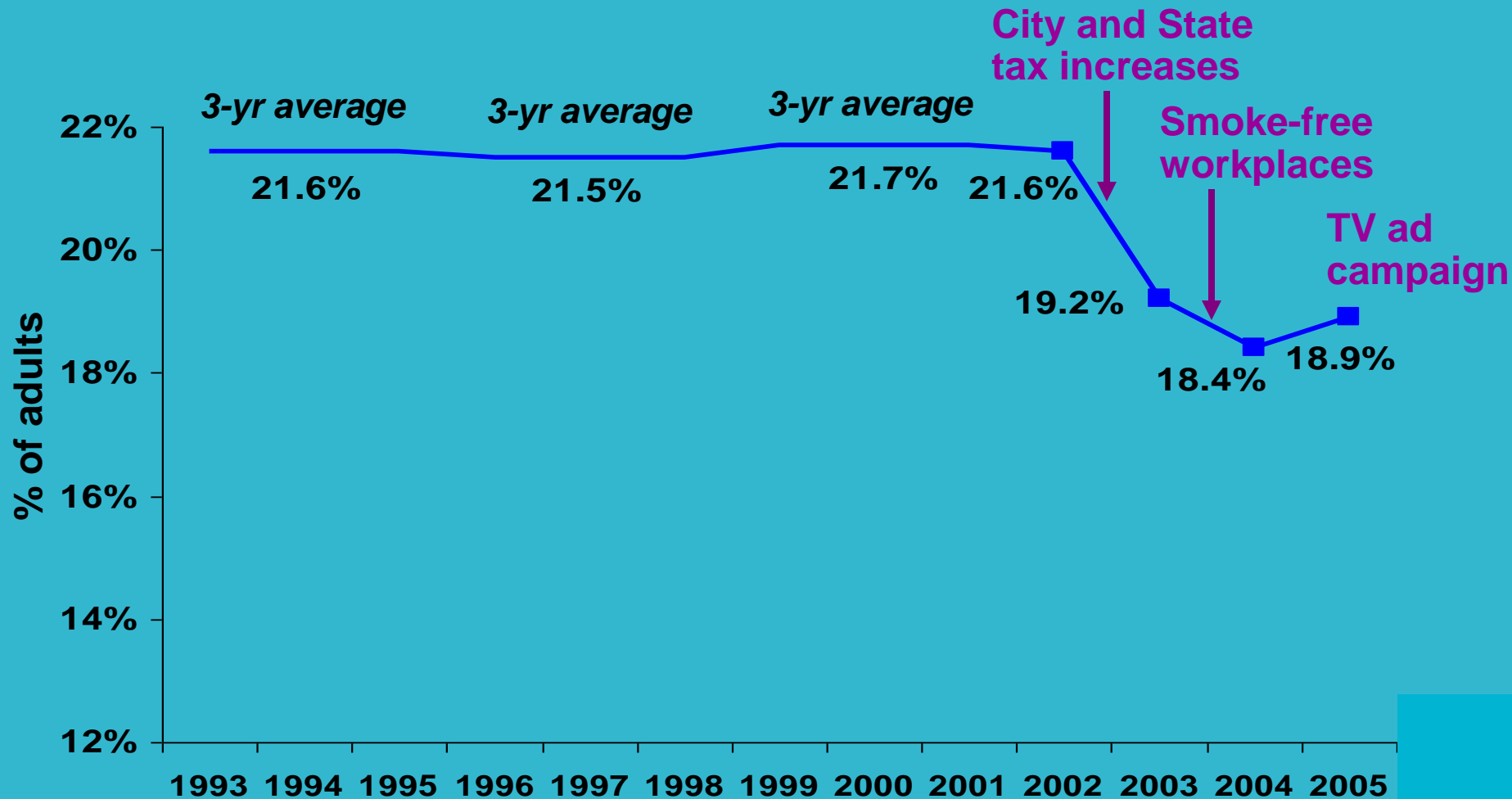
# By 2004, Smoking Decreased Further



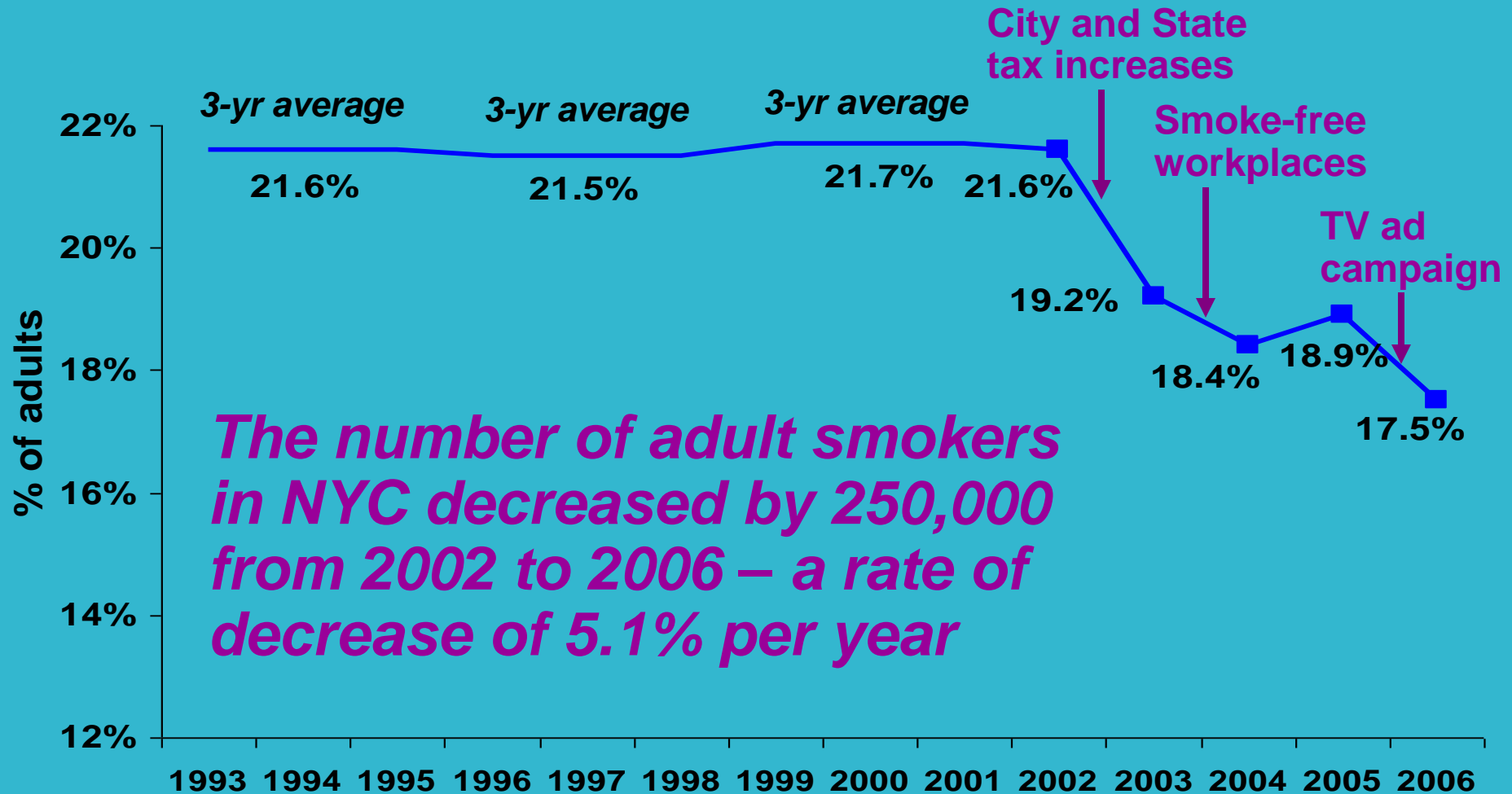
# In 2004, There were No New Tobacco Control Initiatives and Tobacco Use Did Not Decline



# Therefore in 2005, NYC Ran Extensive, Hard-Hitting Anti-Tobacco Ads for the First Time



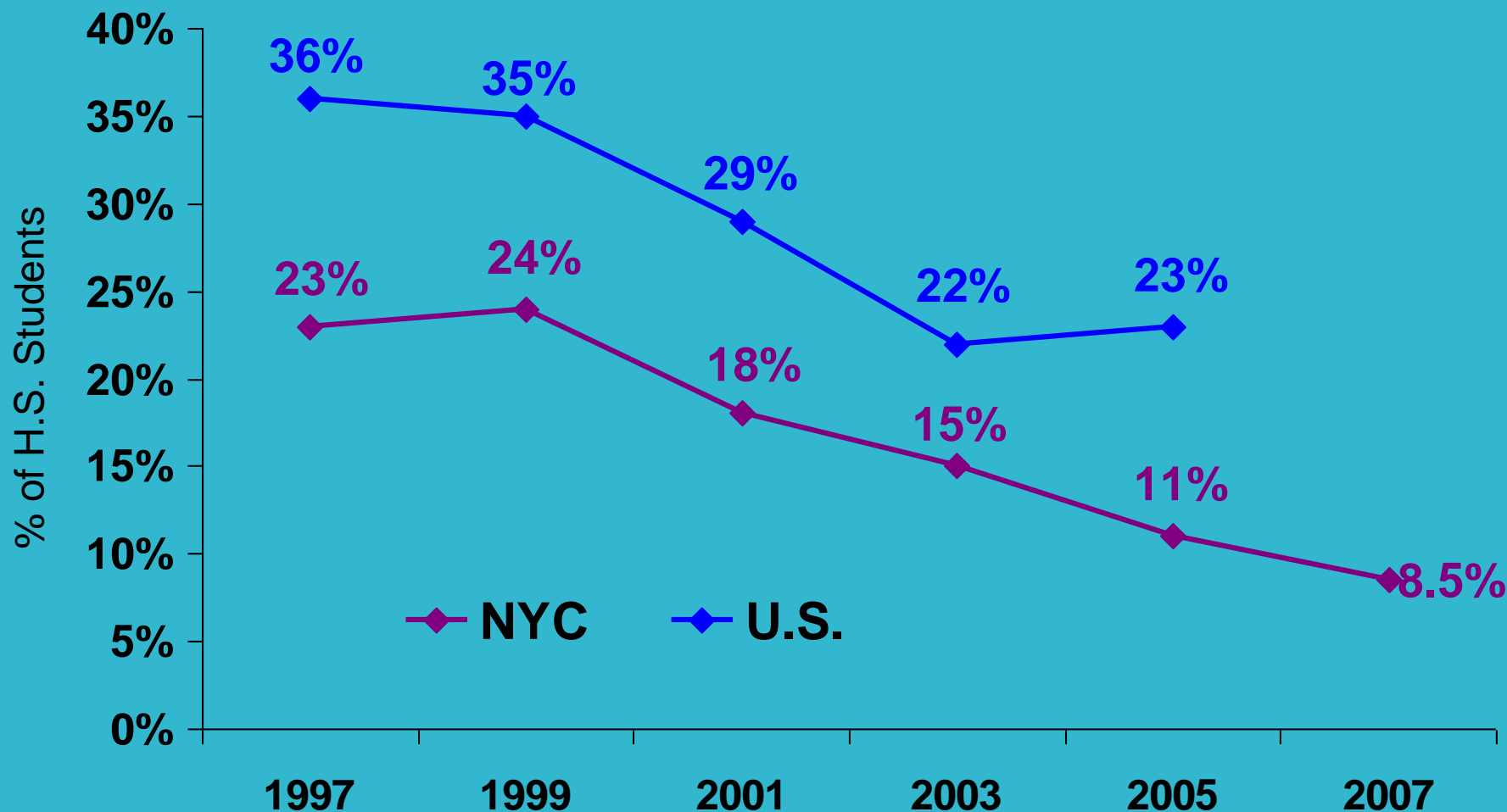
# By 2006, the Decline in Smoking Had Resumed



# Teen Smoking in NYC

## Down 52% in the Past 8 Years...

*...and less than half the national rate*



YRBS, public high school students

# Increased Tobacco Taxation

## Thought Experiment: South Asia

- ?

# Increased Tobacco Taxation Thought Experiment: South Asia

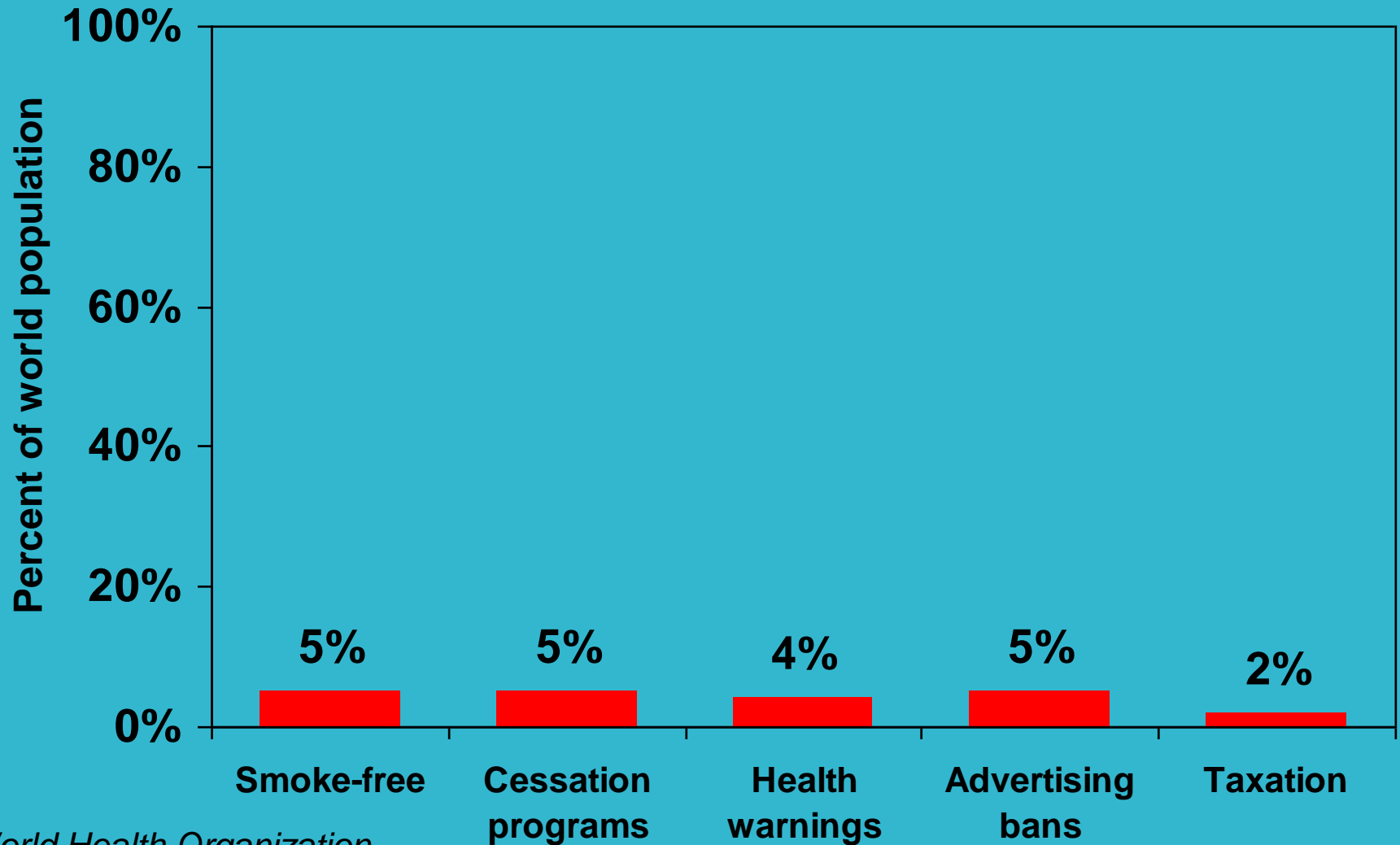
If prevalence in South Asia were reduced from **18%** to:

<b>Impact</b>	<b>16%</b>	<b>12%</b>	<b>10%</b>
Fewer smokers (millions)	22	61	<b>81</b>
Lives Saved (millions)	7	20	<b>27</b>



# The Battle is Only Just Beginning

*Only 5% of World's Population Currently Covered by Tobacco Control Policies*



# Tobacco Control is a Winnable Battle

## *Overwhelming Evidence from Around the World*

- Nearly Unique among health issues in that most evidence-based interventions are very low cost
  - Tax increases raise government revenue
  - Only major expenditure = **political capital**
- When policies are in place, they...
  - Are popular
  - Reduce poverty
  - Avert illness and suffering
  - Save lives