

# THE RATIONALE FOR TOBACCO TAX & PRICE MEASURES



August 2019

Tobacco control is a **development issue**, and tobacco tax reform is a tool for economic development:

Tobacco consumption holds serious consequences for **public health**



- It directly affects **morbidity and mortality**, with approximately 7 million people dying annually from tobacco-related diseases.<sup>1</sup>
- It also affects **hunger and nutrition**: households that spend money on tobacco products spend less money on food than households that do not spend on tobacco.<sup>2</sup>

Tobacco consumption also has an impact on users' **economic well-being**



- The **health consequences** that result from tobacco consumption **perpetuate** a poverty cycle by increasing out-of-pocket health expenditures.<sup>3</sup>
- In low- and middle-income countries, where household budgets are smaller, households are spending a large portion of their **household budget** on tobacco products.<sup>4</sup>
- Spending on tobacco **crowds out** spending on education and food.<sup>5</sup>

Tobacco consumption also holds **country-level economic consequences**



- Tobacco costs the global economy more than **USD 1852 billion per year** (+ - 1.8% of global GDP).<sup>6</sup>
- There is also a loss of **productive labour** due to tobacco-related deaths.
- There is evidence that **other crops yield higher returns**.<sup>7</sup>

Tobacco consumption and farming has consequences for the **environment**



- Cigarette butts are bad for the ocean — it is one of the most common types of beach debris.<sup>8</sup> This in turn kills aquatic life.<sup>9</sup>
- Tobacco farming leads to substantial deforestation.<sup>10</sup>

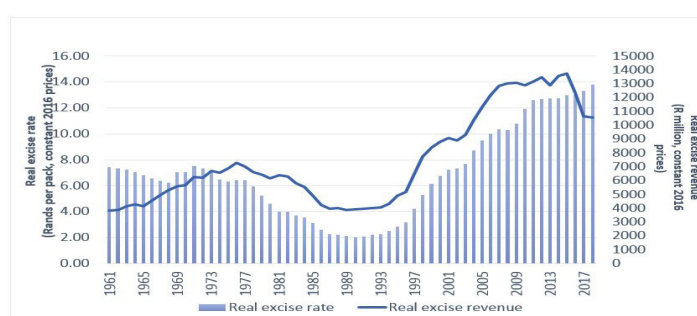
Tobacco taxation is a **win-win policy** — it is a win for public health and government revenue:

Tobacco taxation improves **public health outcomes**

- An increase in tobacco taxation typically increases the retail price of tobacco.
- Global evidence shows that an increase in retail price will decrease the demand for tobacco. In low- and middle-income countries, a 10% increase in tobacco will roughly result in between four and eight percent decrease in consumption, although the results differ across countries.<sup>11</sup>
- The decrease in tobacco consumption will have positive health consequences for smokers (both active and passive) and decrease mortalities and morbidities from tobacco-related diseases.

It is an effective source of **government revenue**

- Tobacco is an addictive substance - as a result, the demand for tobacco is inelastic. When we increase the tax on tobacco, the decrease in consumption will be proportionally less than the increase in tax.
- Evidence from South Africa: The graph shows the increase in the real excise tax revenue from tobacco taxation in SA since the increase in the real excise tax rate in the 1990s.



Source: Created by Van Walbeek from SA Treasury data.

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