THE RATIONALE FOR TOBACCO TAX AND PRICE MEASURES

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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.1
- 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.2

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.3
- In low- and middle-income countries, where household budgets are smaller, households are spending a large portion of their household budget on tobacco products.4
- Spending on tobacco crowds out spending on education and food.5

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).6
- There is also a loss of productive labour due to tobacco-related deaths.
- There is evidence that other crops yield higher returns.7

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.8 This in turn kills aquatic life.9
- Tobacco farming leads to substantial deforestation.10

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

- 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.11
- 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.

Sources: