

The economics of tobacco and tobacco control: An overview of the 2016 US National Cancer Institute Tobacco Control Monograph

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Background

Cigarette smoking is the leading preventable cause of morbidity and mortality in Scotland, with 20% of all deaths attributable to tobacco use.¹ Smoking rates are higher in the most deprived areas, with an estimated 35% of people smoking compared to 10% in those areas that are least deprived.

A recent study examining the views of tobacco control experts identified favourable impressions related to the introduction of measures to control the price of tobacco products in Scotland.² There is an extensive body of evidence describing the association between tobacco price and smoking prevalence. In 2016, the US National Cancer Institute published a comprehensive monograph on the economics of tobacco and tobacco control.³ Within this, a detailed overview was presented outlining:

- the impact of tax and price on the demand for tobacco products [Chapter 4, pp109–152]
- the design and administration of tobacco taxation [Chapter 5, pp163–193].

The key messages from these sections of the monograph are summarised below.

The impact of tax and price on the demand for tobacco products

This section of the monograph builds a robust case for higher tobacco product prices and taxes as a public health measure, and details evidence in relation to impact. Key messages are outlined below.

¹ www.scotpho.org.uk/downloads/scotphoreports/scotpho160621-smoking-attributable-deaths-scotland.pdf – ScotPHO (2016)

² Laird Y, Reid G, Myers F and McAteer J. Tobacco control policy in Scotland: A qualitative study of expert views on successes, challenges and future actions. Edinburgh: NHS Health Scotland; 2017.

³ US National Cancer Institute and World Health Organization. The Economics of Tobacco and Tobacco Control. National Cancer Institute Tobacco Control Monograph 21; 2016.

- There is an economic rationale for governments to introduce higher tobacco product prices and taxes, including the potential to reduce the health and economic burden of tobacco use.
- Legislative interventions (including economic interventions) can have a wider impact on the health and economic burden of tobacco use, compared to many other interventions.
- A number of factors are outlined, building the case for price as a possible intervention strategy:
 - Price is a key determinant of cigarette consumption
 - Changes in price lead to changes in consumption
 - Tobacco consumption is sensitive to changes in consumer income.
- Research indicates that higher taxes and prices reduce overall tobacco use and the prevalence and intensity of use.
- Higher tobacco product taxes and prices lead to reductions in tobacco use by:
 - preventing potential users from initiating use
 - reducing consumption among current users
 - motivating current users to quit.
- Research indicates that young people and those on low incomes are particularly responsive to tax and price increases.
- Research indicates that higher taxes and prices can reduce the morbidity and mortality caused by tobacco use.

The design and administration of taxes

This section of the monograph describes issues related to the structure and administration of tobacco taxes. Key messages are outlined below:

- Higher taxes on tobacco products have the potential to improve public health alongside increasing government revenue, but they are an under-used intervention, and unless designed appropriately, are open to circumvention.
- An efficient and effective tax system should:
 - reduce the likelihood of tax avoidance and evasion, and be simple and easy to administer and enforce
 - result in tax increases being passed onto consumers as price increases
 - be indexed to account for inflation to avoid the potential benefits diminishing over time
 - apply on an equivalent basis to all tobacco products, especially where there is a risk of shifting between different product categories
 - consist of strong administrative procedures to implement, administer and maintain policies effectively, ensuring compliance.
- The establishment of a specific unit price for tobacco is likely to achieve better public health outcomes compared to ad valorem forms of taxation. Unit pricing increases retail prices and narrows price gaps, which reduces the likelihood that consumers will switch to lower-priced brands.

Summary

Pricing and taxation are useful methods that should be considered in efforts to reduce tobacco use. There is a considerable body of evidence to suggest that pricing and taxation of tobacco products can lead to reductions in tobacco use, particularly among young people and those on low incomes. The establishment of a specific unit price for tobacco is likely to achieve better public health objectives compared to ad valorem taxation.

