Six Lessons from the U.S. Experience with Tobacco Taxes

Jason Furman
Chairman, Council of Economic Advisers

World Bank Group Conference: “Winning the Tax Wars: Global Solutions for Developing Countries”
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Lesson #1: Smoking Plays a Major Role Not Just in Mortality But in Inequality of Mortality

Percent that Ever Smoked by Poverty Status, 1991-2014

### Age 50+

- Below Poverty Line
- Above Poverty Line

### Ages 18-40

- Below Poverty Line
- Above Poverty Line

Source: NHIS and CEA calculations following Currie and Schwandt (2016).
Lesson #2: Price Plays an Important Role in Smoking

U.S. Cigarette Prices and Consumption, 1954-2014

Thousands of Cigarettes per Capita

Price per Pack, 2014 Dollars

Source: Orzechowski and Walker (2015); Bureau of Labor Statistics; CEA calculations.
Lesson #3: Cigarette Taxes Play an Important Role in Cigarette Prices

Average U.S. Cigarette Taxes and Prices, 1954-2014

Tax per Pack, 2014 Dollars

Price per Pack, 2014 Dollars

Cigarette Tax Rates per Pack (Left Axis)
- State
- Federal

Average Price per Pack (Right Axis)

Source: Orzechowski and Walker (2015); Bureau of Labor Statistics; CEA calculations.
Lesson #4: Cigarette Taxes Have Large Aggregate Benefits for Public Health

Changes in Smoking Behavior Due to 2009 Tax Increase

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Smoking initiation</th>
<th>Past-month smoking</th>
<th>Days smoked in 30 days (current smokers)</th>
<th>Cigarettes per day (daily smokers)</th>
<th>Cigarettes per day (nondaily smokers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12-17</td>
<td>Orange</td>
<td>Blue</td>
<td>Blue</td>
<td>Orange</td>
<td>Blue</td>
</tr>
<tr>
<td>18-25</td>
<td>Orange</td>
<td>Blue</td>
<td>Blue</td>
<td>Orange</td>
<td>Blue</td>
</tr>
</tbody>
</table>

Source: van Hasselt at al. (2015).
Lesson #5: Tobacco Taxes Disproportionately Benefit Lower-Income Households

Illustrative Distribution of the 2009 Tobacco Tax Increase

Benefits as Percent of Pre-Tax Income

Source: CEA calculations.
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Illustrative Distribution of the 2009 Tobacco Tax Increase

Benefits as Percent of Pre-Tax Income

- Tax
- Tax + Health
- Tax + Health + Utility Offset

Source: CEA calculations.
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Illustrative Distribution of the 2009 Tobacco Tax Increase

Benefits as Percent of Pre-Tax Income

Source: CEA calculations.
Lesson #6: It is Really Important to Tax Similar Tobacco Products at Similar Rates

Sales of Roll-Your-Own and Pipe Tobacco, 2002-2016

Pounds of tobacco (thousands per month)

Pipe Tobacco
Roll-Your-Own Tobacco

Tobacco Tax Increase (April 2009)

Source: Department of the Treasury, Alcohol and Tobacco Tax and Trade Bureau.
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