



## RAISING CIGARETTE TAXES REDUCES SMOKING, ESPECIALLY AMONG KIDS (AND THE CIGARETTE COMPANIES KNOW IT)

---

The cigarette companies have opposed tobacco tax increases by arguing that raising cigarette prices would not reduce adult or youth smoking. But the companies' internal documents, disclosed in the tobacco lawsuits, show that they know very well that raising cigarette prices is one of the most effective ways to prevent and reduce smoking, especially among kids.

- Philip Morris: *Of all the concerns, there is one - taxation - that alarms us the most. While marketing restrictions and public and passive smoking [restrictions] do depress volume, in our experience taxation depresses it much more severely. Our concern for taxation is, therefore, central to our thinking . . .*<sup>1</sup>
- Philip Morris: *When the tax goes up, industry loses volume and profits as many smokers cut back.*<sup>2</sup>
- RJ Reynolds: *If prices were 10% higher, 12-17 incidence [youth smoking] would be 11.9% lower.*<sup>3</sup>
- Philip Morris: *It is clear that price has a pronounced effect on the smoking prevalence of teenagers, and that the goals of reducing teenage smoking and balancing the budget would both be served by increasing the Federal excise tax on cigarettes.*<sup>4</sup>
- Philip Morris: *Jeffrey Harris of MIT calculated...that the 1982-83 round of price increases caused two million adults to quit smoking and prevented 600,000 teenagers from starting to smoke...We don't need to have that happen again.*<sup>5</sup>
- Philip Morris: *A high cigarette price, more than any other cigarette attribute, has the most dramatic impact on the share of the quitting population...price, not tar level, is the main driving force for quitting.*<sup>6</sup>

[For more on cigarette company documents and price/tax increases see the 2002 study in the *Tobacco Control* journal, "Tax, Price and Cigarette Smoking: Evidence from the Tobacco Documents."<sup>7</sup>]

The cigarette companies have even publicly admitted the effectiveness of tax increases to deter smoking in their required filings with the U.S. Securities and Exchange Commission.

- Philip Morris: *Tax increases are expected to continue to have an adverse impact on sales of tobacco products by our tobacco subsidiaries, due to lower consumption levels...* [10-Q Report, November 3, 2008]
- Lorillard Tobacco: *We believe that increases in excise and similar taxes have had an adverse impact on sales of cigarettes. In addition, we believe that future increases, the extent of which cannot be predicted, could result in further volume declines for the cigarette industry, including Lorillard Tobacco...* [10-Q Report, November 4, 2008]
- R.J. Reynolds: *Together with manufacturers' price increases in recent years and substantial increases in state and federal taxes on tobacco products, these developments have had and will likely continue to have an adverse effect on the sale of tobacco products.* [10-Q Report, October 24, 2008]

**Economic Research Confirms That Cigarette Tax Increases Reduce Smoking.** Numerous economic studies in peer-reviewed journals have documented that cigarette tax or price increases reduce both adult and underage smoking. The general consensus is that every 10 percent increase in the real price of cigarettes reduces overall cigarette consumption by approximately three to five percent, reduces the number of young-adult smokers by 3.5 percent, and reduces the number of kids who smoke by six or seven percent.<sup>8</sup> Research studies have also found that:

- Cigarette price and tax increases work even more effectively to reduce smoking among males, Blacks, Hispanics, and lower-income smokers.<sup>9</sup>
- A cigarette tax increase that raises prices by ten percent will reduce smoking among pregnant women by seven percent, preventing thousands of spontaneous abortions and still-born births, and saving tens of thousands of newborns from suffering from smoking-affected births and related health consequences.<sup>10</sup>
- Higher taxes on smokeless tobacco reduce its use, particularly among young males; and increasing cigar prices through tax increases reduce adult and youth cigar smoking.<sup>11</sup>

- Cigarette price increases not only reduce youth smoking but also reduce both the number of kids who smoke marijuana and the amount of marijuana consumed by continuing users.<sup>12</sup>
- By reducing smoking levels, cigarette tax increases reduce secondhand smoke exposure among nonsmokers, especially children and pregnant women.

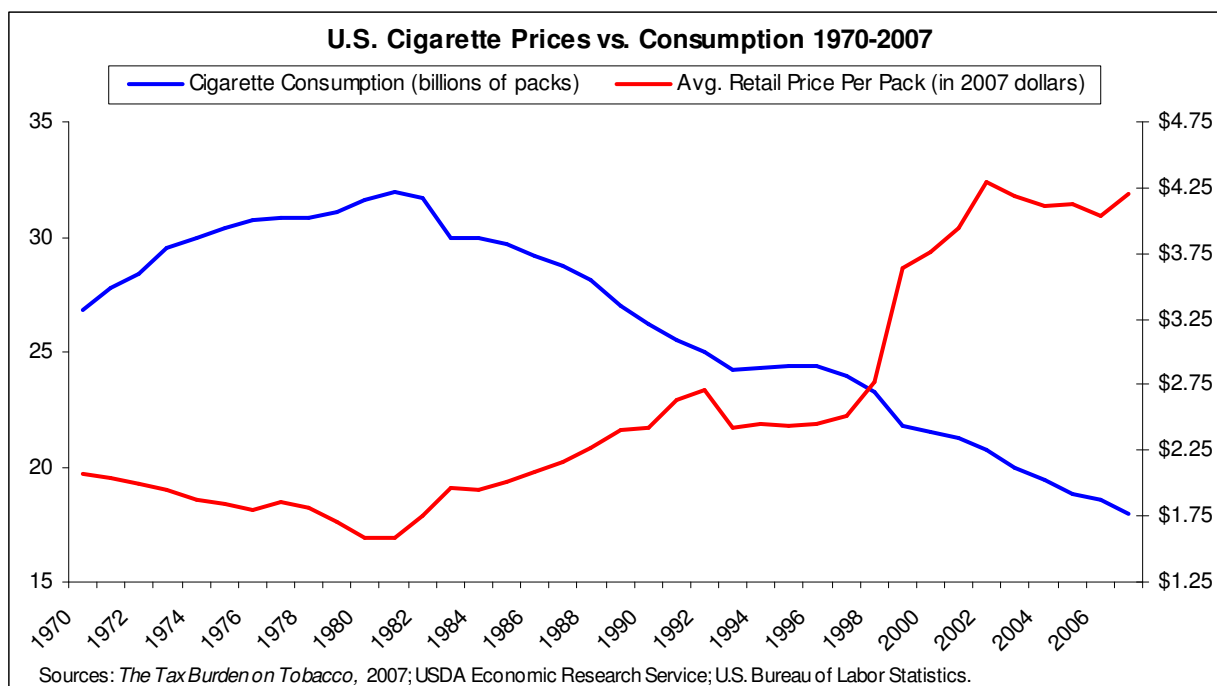
### **Recent State Experiences**

In every single state that has significantly raised its cigarette tax rate, pack sales have gone down sharply.<sup>13</sup> While some of the decline in pack sales comes from interstate smuggling and from smokers going to other lower-tax states to buy their cigarette, reduced consumption from smokers quitting and cutting back plays a more powerful role. As shown in more detail, below, nationwide data – which counts both legal in-state purchases and the vast majority of packs purchased through cross-border, Internet, or smuggled sales – shows that overall packs sales go down as state cigarette tax increases push up the average national price.

In-state evidence shows that state cigarette tax increases are prompting many smokers to quit or cutback. For example, the Wisconsin Quit Line received a record-breaking 20,000 calls in the first two months after its \$1.00 per cigarette pack increase (it typically receives 9,000 calls per year). Likewise, in Texas and Iowa, which each increased their cigarette taxes by \$1.00 in 2007, the number of calls to the state quitlines have been much higher compared to the year before.<sup>14</sup> It is also clear that these efforts to quit by smokers after tax increases translate directly into lower future smoking rates. In Washington State, for example, adult smoking from the year before its 60-cent cigarette tax increase in 2002 to the year afterwards declined from 22.6 to 19.7 percent, reducing the number of adult smokers in the state by more than 100,000, despite overall population increases.<sup>15</sup>

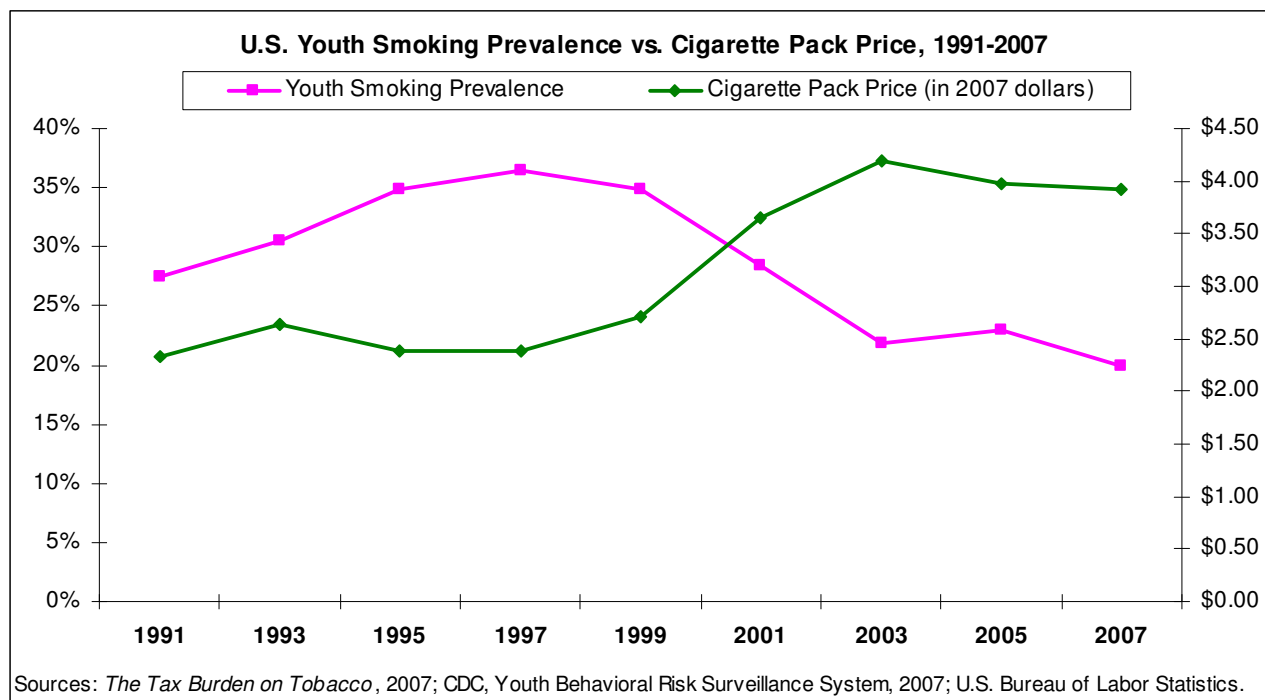
### **Increasing U.S. Cigarette Prices and Declining Consumption**

Although there are many other factors involved, comparing the trends in cigarette prices and overall U.S. cigarette consumption from 1970 to 2007 shows that there is a strong correlation between increasing prices and decreasing consumption.



While U.S. cigarette prices are largely controlled by the cigarette companies' price-setting decisions, from 1970 to 2006, the federal tax on cigarettes also increased from eight cents to 39 cents per pack and the average state cigarette tax increased from 10 cents to \$1.07 per pack during that time period. Without these federal and state tax increases, U.S. cigarette prices would be much lower and U.S. smoking levels would be much higher.

**Prices and Youth Smoking Rates.** The chart below shows how closely youth smoking prevalence is to cigarette pack prices. As prices climbed in the late 1990s and early 2000s, youth smoking rates declined, but as the price decreased between 2003 and 2005 (along with funding for tobacco prevention programs in many states), youth rates increased. Even the slight increase in price between 2005 and 2007 corresponds with a decline in youth smoking rates.



### **Expert Conclusions on Cigarette Prices and Smoking Levels**

- In its 2007 report, *Ending the Tobacco Problem: A Blueprint for the Nation*, the National Academy of Sciences' Institute of Medicine recommends raising cigarette taxes in states with low rates and indexing them to inflation, to reduce cigarette consumption and to provide money for tobacco control. The report states, "Tobacco excise tax revenues pose a potential funding stream for state tobacco control programs. Setting aside about one-third of the per-capita proceeds from tobacco excise taxes would help states fund programs at the level suggested by CDC."<sup>16</sup>
- The President's Cancer Panel's 2007 report, *Promoting Healthy Lifestyles*, advised increasing state tobacco taxes, stating, "Increases in tobacco excise taxes, which are passed along to consumers in the form of higher tobacco product prices, have proven highly effective in reducing tobacco use by promoting cessation among current users, discouraging relapse among former users, preventing initiation among potential users, and reducing consumption among those who continue to use tobacco. These revenues also provide crucial dollars needed to fund anti-tobacco efforts."<sup>17</sup>
- The 2000 U.S. Surgeon General's Report, *Reducing Tobacco Use*, found that raising tobacco-product prices decreases the prevalence of tobacco use, particularly among kids and young adults, and that tobacco tax increases produce "substantial long-term improvements in health." From its review of existing research, the report concluded that raising tobacco taxes is one of the most effective tobacco prevention and control strategies.<sup>18</sup>
- Wall Street tobacco industry analysts have long recognized the powerful role increased cigarette taxes and rising cigarette prices play in reducing U.S. smoking levels. For example, a December 1998 "Sensitivity Analysis on Cigarette Price Elasticity" by Credit Suisse First Boston Corporation settled on a "conservative" estimate that cigarette consumption will decline by four percent for every 10 percent increase in price.
- In its 1998 report, *Taking Action to Reduce Tobacco Use*, the National Academy of Sciences' Institute of Medicine concluded that "the single most direct and reliable method for reducing consumption is to increase

the price of tobacco products, thus encouraging the cessation and reducing the level of initiation of tobacco use.”<sup>19</sup>

**Campaign for Tobacco-Free Kids, January 9, 2009 / Eric Lindblom & Ann Boonn**

For more information, please see <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18> and <http://tobaccofreekids.org/reports/prices>.

<sup>1</sup> Philip Morris document, "General Comments on Smoking and Health," Appendix I in *The Perspective of PM International on Smoking and Health Initiatives*, March 29, 1985, Bates No. 2023268329-8348.

<sup>2</sup> Ellen Merlo, Senior Vice President of Corporate Affairs, Philip Morris, 1994 draft speech to the Philip Morris USA Trade Council, <http://legacy.library.ucsf.edu/tid/oyf35e00>.

<sup>3</sup> R.J. Reynolds Executive D. S. Burrows, "Estimated Change In Industry Trend Following Federal Excise Tax Increase," RJR Document No. 501988846 -8849, September 20, 1982.

<sup>4</sup> Philip Morris Research Executive Myron Johnston, "Teenage Smoking and the Federal Excise Tax on Cigarettes," PM Document No. 2001255224, September 17, 1981.

<sup>5</sup> Philip Morris Executive Jon Zoler, "Handling An Excise Tax Increase," PM Document No. 2022216179, September 3, 1987.

<sup>6</sup> Philip Morris Executive Claude Schwab, "Cigarette Attributes and Quitting," PM Doc. 2045447810, March 4, 1993.

<sup>7</sup> Chaloupka, F, et al., "Tax, Price and Cigarette Smoking: Evidence from the Tobacco Documents and implications for tobacco company marketing strategies," *Tobacco Control* 11: 62-72, March 2002.

<sup>8</sup> See, e.g., Chaloupka, F, "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine and Tobacco Research*, 1999; other studies at <http://tigger.uic.edu/~fjc/>; Tauras, J, "Public Policy and Smoking Cessation Among Young adults in the United States," *Health Policy* 6\*:321-32, 2004; Tauras, J, et al., "Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis," Bridging the Gap Research, ImpactTeen, April 24, 2001, and others at <http://www.impactteen.org/researchproducts.htm>. Chaloupka, F & Pacula, R, *An Examination of Gender and Race Differences in Youth Smoking Responsiveness to Price and Tobacco Control Policies*, National Bureau of Economic Research, Working Paper 6541, April 1998, <http://tigger.uic.edu/~fjc/>; Emery, S, et al., "Does Cigarette Price Influence Adolescent Experimentation?," *Journal of Health Economics* 20:261-270, 2001; Evans, W & Huang, L, *Cigarette Taxes and Teen Smoking: New Evidence from Panels of Repeated Cross-Sections*, working paper, April 15, 1998, [www.bsos.umd.edu/econ/evans/wrkpap.htm](http://www.bsos.umd.edu/econ/evans/wrkpap.htm); Harris, J & Chan, S, "The Continuum-of-Addiction: Cigarette Smoking in Relation to Price Among Americans Aged 15-29," *Health Economics Letters* 2(2):3-12, February 1998, [www.mit.edu/people/jeffrey](http://www.mit.edu/people/jeffrey).

<sup>9</sup> See, e.g., U.S. Centers for Disease Control and Prevention (CDC), "Responses to Cigarette Prices By Race/Ethnicity, Income, and Age Groups – United States 1976-1993," *Morbidity and Mortality Weekly Report* 47(29):605-609, July 31, 1998, <http://www.cdc.gov/mmwr/preview/mmwrhtml/00054047.htm>; Chaloupka, F & Pacula, R, *An Examination of Gender and Race Differences in Youth Smoking Responsiveness to Price and Tobacco Control Policies*, National Bureau of Economic Research, Working Paper 6541, April 1998.

<sup>10</sup> Ringel, J & Evans, W, "Cigarette Taxes and Smoking During Pregnancy," *American Journal of Public Health*, 2001. See also, TFK Factsheet, *Harm Caused by Pregnant Women Smoking or Being Exposed to Secondhand Smoke*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0007.pdf>.

<sup>11</sup> Chaloupka, F, Tauras, J & Grossman, M, "Public Policy and Youth Smokeless Tobacco Use," *Southern Economic Journal* 64(2):503-16, October 1997. Ringel, JS, Wasserman, J, & Andreyeva, T, "Effects of Public Policy on Adolescents' Cigar Use: Evidence From the National Youth Tobacco Survey," *American Journal of Public Health* 95:995-998, 2005.

<sup>12</sup> Chaloupka, F, et al., *Do Higher Cigarette Prices Encourage Youth to Use Marijuana?*, National Bureau of Economic Research, Working Paper No. 6939, February 1999.

<sup>13</sup> TFK Factsheet, *Raising State Cigarette Taxes Always Increases State Revenues (and Always Reduces Smoking)*, <http://tobaccofreekids.org/research/factsheets/pdf/0098.pdf>.

<sup>14</sup> "Calls to Wisconsin Tobacco Quit Line breaks all records," *The Dunn County News*, March 12, 2008. Souza, M, "Thank you for Smoking," *Longview-News Journal*, April 22, 2007; "Calls to Quitline Iowa double after cigarette tax raised," *AP*, March 22, 2007. See also, TFK Factsheet, *Quitlines Provide Essential and Effective Treatment Services*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0326.pdf>.

<sup>15</sup> CDC, Current Adult Smokers, Behavioral Risk Factor Surveillance System (BRFSS).

<sup>16</sup> Institute of Medicine (IOM), *Ending the tobacco problem: A blueprint for the nation*, Washington, DC: The National Academies Press, 2007, <http://www.iom.edu/CMS/3793/20076/43179.aspx>.

<sup>17</sup> President's Cancer Panel, *Promoting Healthy Lifestyles*, 2006-2007 Annual Report, August 2007, <http://deainfo.nci.nih.gov/advisory/pcp/pcp07rpt/pcp07rpt.pdf>.

<sup>18</sup> U.S. Department of Health and Human Services (HHS), *Reducing Tobacco Use: A Report of the Surgeon General*, Atlanta, Georgia: HHS, CDC, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2000, [http://www.cdc.gov/tobacco/data\\_statistics/sgr/sgr\\_2000/index.htm](http://www.cdc.gov/tobacco/data_statistics/sgr/sgr_2000/index.htm).

<sup>19</sup> IOM, *Taking Action to Reduce Tobacco Use*, Washington, DC: National Academy Press, 1998, [http://www.nap.edu/catalog.php?record\\_id=6060](http://www.nap.edu/catalog.php?record_id=6060).