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+**

- Above Poverty Line
- Below Poverty Line

**Ages 18-40**

- Above Poverty Line
- Below 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

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

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>Percent Change</th>
<th>Age Group</th>
<th>12-17</th>
<th>18-25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smoking initiation</td>
<td>-12.6%</td>
<td>-18.0%</td>
<td></td>
</tr>
<tr>
<td>Past-month smoking</td>
<td>-6.5%</td>
<td>-7.9%</td>
<td></td>
</tr>
<tr>
<td>Days smoked in 30 days (current smokers)</td>
<td>-6.8%</td>
<td>-8.6%</td>
<td></td>
</tr>
<tr>
<td>Cigarettes per day (daily smokers)</td>
<td>-6.5%</td>
<td>-7.9%</td>
<td></td>
</tr>
<tr>
<td>Cigarettes per day (nondaily smokers)</td>
<td>-6.8%</td>
<td>-8.6%</td>
<td></td>
</tr>
</tbody>
</table>

Source: van Hasselt et 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.
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)

Tobacco Tax Increase (April 2009)

Roll-Your-Own Tobacco

Pipe Tobacco

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