

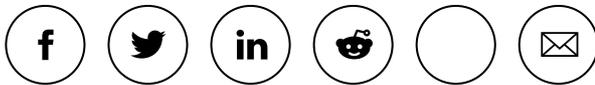
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# The Unintended Consequences of Cigarette Taxation

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This is how universally beloved cigarette taxes are: the last time Congress voted on a measure to raise them, Barack Obama was president, and he managed to convince 40 Republican representatives to support him, which was about 40 more than usual.<sup>1</sup> It is not hard to see why tobacco taxes are an easy sell: Who wouldn't support a measure that hits the rare exacta of boosting government revenue and discouraging a staggeringly unhealthy addiction that costs countless lives and untold dollars? It seems like a slam dunk, but then reality rears its ugly head.

It turns out that cigarette sales are what economists refer to as “price-inelastic,” which means that when the price goes up, demand does not change all that much. That is easy to explain, too: Cigarettes are nicotine delivery devices that have been carefully engineered to be as addictive as the US Food and Drug Administration will allow.<sup>2</sup> Basically, a lot of people will pay whatever it takes to get their “nic fix.” So, when tobacco taxes go up by \$1, most smokers do not change their habits at all, although a few, about 1.4%, quit entirely.<sup>3</sup> Although that may not be enough to get the tobacco companies to tap out, every little bit helps.



The other piece of the puzzle is that cigarette taxes are regressive: Poor people, in effect, deal with much higher tobacco tariffs than the rich. For Jill Millionaire, when increased taxes up the price of cigarettes by \$1 or \$2, it is no big deal. She can keep puffing away, secure in the knowledge that the increased expenditure will not budge her bottom line. Even in New York State, where tobacco taxes are among the highest in the nation, people in the highest-income groups only spend about 2% of their income on cigarettes. But to Joe Schmo, those same cigarette taxes are an entirely different animal, and partly as a result, poor New Yorkers spend close to a quarter of their income (23.6%) on tobacco.<sup>4</sup>

That money has to come from somewhere, and reasonably often, that somewhere ends up being the Supplemental Nutrition Assistance Program (SNAP). SNAP, formerly known as the Food Stamp program, is a federal benefit program that helps low-income households buy food. Only about half of the families that qualify are enrolled in SNAP,<sup>5</sup> but when cigarette taxes go up, people sign up in droves, so much so that, after a tax hike, an eligible but unenrolled household is almost 10 times as likely to sign up for food stamps than to have a member quit smoking.<sup>3</sup>

It is not as if beneficiaries are using the SNAP money to buy unfiltered Marlboros (you can only buy particular items with SNAP credits, none of which will give you a nicotine rush), but food stamps are pretty clearly being used as secondary income to offset increases in tobacco prices. The numbers tell the tale: approximately 8% of new cigarette tax revenue is siphoned off to increased SNAP payments,<sup>3</sup> which, for one thing, means the assumption that tobacco tariffs are easy revenue is not quite as robust as we once thought.

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But that is neither here nor there. Cigarettes are a pox on our fiscal, and literal, houses,<sup>6</sup> so even if they did not raise any revenue at all, the smoking cutbacks induced by taxes would no doubt still be

worth a pound of cure. Instead, the problem is what the increased SNAP enrollment suggests about the health status of low-income smokers. As a group, SNAP recipients tend to have poorer health indicators than the rest of the population. They are more obese, have shorter life expectancies, are more likely to depend on public insurance, and are much less likely to self-report good or excellent health.<sup>7,8</sup>

Let us be clear: these problems are not caused by SNAP; actually, they are a big part of the reason why households turn to SNAP in the first place. Large swaths of people, including innumerable poor smokers, would be in dire straits if SNAP vanished tomorrow. But the chasm between the health of SNAP beneficiaries and everyone else tells us that the decision to go on food stamps, crossing over from 1 group to the other, means something. At very least, it suggests that the equanimity of the recipient's health is, for whatever reason, a little more precarious than it was before. And more often than we care to admit, tobacco taxes are the straw that breaks the camel's back.

Still, the worst thing we could do is roll them back. Cigarette taxes might not be a universal panacea, but the incremental reductions in smoking rates they have brought about are real, especially among youths, and there is no sense in abandoning that progress.<sup>9</sup> And, anyway, the tobacco companies really do not need our help. We would be better off earmarking some of that tax money to ensure that, whether through SNAP or some other mechanism, poor folks close to buckling under cigarette taxes can still afford a healthy diet. A tobacco addiction should not be a reason to go hungry. Maybe that last straw would not have done the camel in, if only it had passed an extra oasis or 2 along the way.

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