

Cigarette tax in america

[Economics](#), [Tax](#)



Channel Four News Team | Effects of Cigarette Tax In America | Cigarette Tax | | Justin Hochstetler, Rachel Krug, Robbie Mostek, Randi Westervelt | 12/5/2011 | | Cigarette Consumption What are the economic impacts of cigarette taxes on producers, consumers, and government in the United States? The motivation of the study is to find out whether cigarette taxes really decrease consumption. If they don't, what are the possible alternative solutions to decrease consumption? Lastly, we want to find a way to decrease consumption in order to increase productivity and health. The Grossman model of health is a major portion of the health economics field. Michael Grossman formulated his model of health production in 1972 and his model has been used in health economics ever since. Grossman's model depicts health as both consumable good and an investment good. People consume health through personal satisfaction and economic utility. By investing in health, consumers gain increased satisfaction due to larger productivity, fewer sick days, and higher wages. However, investing in health is costly due to the amount of time and other resources devoted that are necessary to maintain good health. In Grossman's model, the equilibrium point of health investments come when the marginal cost of health capital equals the marginal benefits of health capital. Furthermore, Grossman's model shows that once an adequate level of investment in health is reached, reaching an even higher level is difficult regardless of the amount of time and other resources allocated to health investments. The government taxes consumption because it is a negative externality. It is a public good that is normally over consumed so the government regulates those goods to control it. Overall, cigarettes decrease the amount of time spent in full health

relating to the Grossman model and is not as productive. The government raises revenue on these taxes and in 2010 it was 16.5 billion dollars. Since we were in elementary school teachers, parents, and role models all told us that smoking was bad; and it is. Nicotine is the addictive drug in tobacco or cigarettes that, "Harms nearly every organ in the body, causing many diseases and reducing a person's health overall," states www.betterhealth.com According to Smoking's Immediate Effects on the Body from tobaccofreekids.org, smoking has immediate impacts on a smoker's respiratory, circulatory, cardiovascular, gastrointestinal, immune and metabolic systems of the body, as well as the brain. From the first inhale of the tobacco from the cigarette damage is done to the body that can produce serious medical consequences. A smoker's brain changes as a result of smoking. Dopamine is released in the brain when a person engages in certain behaviors that gives the person a feeling of reward. Smokers have fewer dopamine receptors from smoking which causes them to smoke more cigarettes to have the same feeling of reward. Smoking tobacco impairs the person's lungs to guard itself against diseases because tobacco paralyzes hairs in the lungs that clear the airway and destroy germs leading to the famous "smoker's cough". Smoking increases the amount of lipids, a form of fat that provides the body with energy. This fat attaches itself onto the smoker's blood vessels or arteries causing them to block the flow of blood. This immediately increases the risk of a stroke or heart disease. According to Smoking's Immediate Effects on the Body smoking 1-5 cigarettes a day is a significant increase in the risk of a heart attack. Smoking also causes an increase in heart rate and blood pressure for the smoker because the body

has to work harder to pump blood since the vessels and arteries are blocked by the lipids. Smoking causes the muscles of the esophagus and stomach to separate which allows acid that normally stays in the stomach to rise up and cause GERD or Gastro esophageal Reflux Disease. This can cause heartburn and may develop into esophageal cancer that has a poor prognosis in most patients according to Smoking's Immediate Effects on the Body from tobaccofreekids.org. When smokers are ill it takes them longer to get over the illnesses that tend to be more severe than non-smokers. This is because smoking affects the immune and metabolic systems of the body that fight against diseases and break down medicines into their basic forms. Antioxidants in the form of vitamins A, C and E destroy oxidants in the body that are byproducts of the body's normal chemical processes. Smoking increases the amount of oxidants in the body which usually overpowers your intake of antioxidants which contributes to the development of cancers and heart disease. www.betterhealth.com states smoking causes other effects on the body. Smoking reduces the ability to smell and taste, lowers the sperm count for men, and increases the risk of cervical cancer for women. Smoking also contributes to low birth weights in babies whose mom smoked during the pregnancy which causes the baby to have an increased risk of heart disease, diabetes, and strokes. Overall smoking causes harm to a smokers' body; impacting them for a lifetime. Tobacco companies have lobbied congress and politicians quite a bit. The average spending by the big tobacco companies is \$106, 415 per legislation day to persuade congress. Lobbyists give money to politicians to sway their vote in favor of deregulating tobacco. Three of the major tobaccos companies are R. J.

Reynolds Tobacco Company, Lorillard Tobacco Co., and Philip Morris Brown & Williamson Tobacco. Tobacco can't be regulated by the Food and Drug Administration after 2001 when the Supreme Court ruled that tobacco is not a pharmaceutical drug. This ruling leaves the door open for tobacco companies to produce products unregulated, and for lobbyists to battle any potential regulation from the government by throwing money at politicians. Lobbying allows tobacco companies to produce more which leads to more consumption. More consumption leads to negative externalities. In 2008, a gallop poll released its findings, which compared the relationship between the percentage of smokers and America along with their annual income. The New York Times reveals, " while it was established long ago that smoking rates are higher among the poor, a Gallup survey released on Friday suggests there is a sliding scale: smoking decreases as income increases" (newyorktimes. com). In the poll based on interviews with more than 75, 000 participants, adults earning between \$6, 000 and \$11, 999 had the highest percentage of smokers (34%). Gallop. com states, " One exception to this pattern occurs among those making less than \$6, 000 per year, an income bracket often skewed because many in that bracket are students. Among those making \$6, 000 to \$11, 999 per year, 34% say they smoke, while only 13% in the top two income brackets (those with incomes of at least \$90, 000 per year) say the same -- a 21 percentage-point gap". Since the data displays a skewed distribution to the right, we can use this information to generalize that adults earning less than approximately \$24, 000 per year are more likely to smoke than adults with higher annual incomes. One of the major aspects of the tobacco consumption tax and in this particular case, the

tax on cigarette consumption, is finding out who actually pays the excise tax: producers or consumers. The demand for tobacco (cigarettes) is largely inelastic. This means that regardless of how small or large a change of price is the consumers will still pay to consume that specific good. For example, if the price of a pack of cigarettes was \$15 or \$30, most of the people that consume at \$15 will continue to consume at \$30. The reason for this is the addiction that is caused by frequent cigarette usage (addiction caused by the drug Nicotine) and the relatively few substitute choices. This addiction causes cigarette users to pay for cigarettes regardless of what the price is (of course this applies only to a certain extent). Due to the fact that the demand for cigarettes is inelastic, producers are able to pass the tax imposed upon them onto the consumers of cigarettes. To demonstrate the effects of an excise tax on cigarette consumption, consider Figure A. Before the tax was imposed, producers were supplying Q -without tax and the price was P -without tax. Once the tax was imposed, the price increased massively to P -with tax but the supply decreased only slightly to Q -with tax. Producers are able to "pass on" the tax to the consumer by raising prices. Therefore, an increase in price can make up producers' losses due to a decrease in quantity sold. In order to look into it further we took data from each state including the adult smoking rate and the cigarette tax per pack. To see if there was any correlation between these two figures we scatter-plotted the data and applied a regression line to the chart. We also obtained an equation from the line that we are then able to input any tax price and it will then equate a percent of adult smoking rate that will occur if that tax price is installed. This showed that there is a correlation between the price and

smoking rate and shows that although cigarettes are inelastic it is only to a certain extent which means that price will affect consumption, but only slightly and people will still buy cigarettes but consumption slightly falls with price increasing. Patrick C. Gallagher of Elon College explains that taxes hold a power in controlling smoking: " There have been several studies concerning the consumption of cigarettes and the explanatory variables associated with that consumption. All of the studies have shown that taxes can be significant in reducing smoking" The tax effects conclusion is that the weight of taxation falls onto consumers since the addiction to cigarettes leads to inelastic demand which allows producers to pass tax onto consumers. Since many of the lower class people smoke, these taxes affect them severely since they are lacking money. Tax does not largely reduce consumption, but government receives a large amount of tax revenue. Lastly, implementing too large of a tax could raise prices enough to create a large black market. Our solution to the problem is to find an appropriate tax amount to discourage consumption without creating a black market. This can be very difficult due to determinants of demand constantly changing. Works Cited Gallagher, Patrick. " Do Taxes Really Affect the Consumption of Cigarettes?" Elon. Web. 1 Dec. 2011. . Grossman, Michael. " On the Concept of Health Capital and the Demand for Health." Uwaterloo. ca. Web. 28 Nov. 2011. . rketfailure-indirect-taxation. html>. Riley, Geoff. " Microeconomics - Economies and Diseconomies of Scale." Tutor2u | Economics | Business Studies | Politics | Sociology | History | Law | Marketing | Accounting | Business Strategy. Sept. 2006. Web. 28 Nov. 2011. " Smoking Effects on Your Body." n. d. www. betterhealth. vic. 6 November 2011 . " Smoking's

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