

wanda  
Burdett

S. Econom

Laura

Lester

# Taxes outweigh health warnings in reducing sales of cigarettes

By Ed Crews

News Leader business writer

Rising taxes have done more to reduce cigarette sales than government health warnings or the ban on television and radio advertising, according to a report by a Virginia Commonwealth University professor.

"About 30 percent of total cigarette price is taxes. We learned that the tax burden on consumers is one of the major factors in their determining whether to smoke more or smoke less," said Dr. Jang Yoo, whose study appears in the October issue of the Southern Economic Journal.

His findings give a new view of consumption figures that researchers have studied for years.

Besides a link between taxes and declining sales, he also discovered that the effect of health warnings and advertising bans on cigarette sales has been overestimated.

"I found out the commonsensical belief that the government 'health scare' and ban, particularly on radio and TV, should have been effective in cutting cigarette smoking is not true," he said.

The study showed that neither health warnings on packs nor the advertising ban significantly changed smokers' habits, he said. In fact, if cigarette prices fell, consumption probably would increase.

He said the conclusions suggest that tobacco-industry strategists should try to affect legislative action and not counter health claims, as R.J. Reynolds Industries Inc. tried to do in a recent multimillion-dollar campaign.

"So, if you want to save your industry and promote your industry more effectively, then try to cut taxes, try to persuade politicians to cut taxes," Dr. Yoo said.

John Baugh, a cigarette industry analyst with Wheat, First Securities Inc. here, said he generally agreed with Dr. Yoo's findings.

"The decision is not whether to buy or not. It's whether to buy as much as usual. If a customer goes in to buy a month's supply and finds the price has gone up significantly, he might buy three cartons instead of his usual four," Baugh said.

The analyst also said the industry knows that taxes affect sales and tries to present its case to politicians. The tobacco sector probably can't do much more than it's doing now, he said.

Public perception of cigarettes and taxation are linked, Baugh said. Public reaction to smoking as a health risk will affect receptiveness to higher taxes on cigarettes.

What might be helpful information to the tobacco industry also provides more ammunition to opponents of smoking.

Dr. Louis F. Rossiter, a VCU professor of health administration, has read Dr. Yoo's study and said it breaks new ground.

"There have been quite a few studies on this ... Others have sort of lumped the effects together and estimated aggregate impact. He's been able to separate ... the advertising ban on one side and the taxes on the other," Dr. Rossiter said.

Dr. Yoo's study does not show whether people actually quit smoking as the price of cigarettes rose. Nevertheless, Dr. Yoo has shown that taxes are the most effective of existing deterrents to smoking, Dr. Rossiter said.

"The obvious conclusion is that we ought to increase the taxes on cigarettes to help compensate for the direct health-care costs that cigarette smoking generates," Dr. Rossiter said. The study shows that "policy makers have an effective tool available to improve the health of the American people."

An estimated \$22 billion will be spent nationally to treat cancers and cardiovascular and lung diseases related to smoking in 1985, according to a recent report compiled by the House Ways and Means Committee's health subcommittee. That works out to 72 cents for each pack of cigarettes expected to be sold in 1985, Dr. Rossiter said.

Of the \$22 billion, one-quarter is paid out of pocket by the patients. Of the \$16.5 billion left, \$4.4 billion will be paid by tax-supported insurance plans — Medicare and Medicaid. The rest, \$12.1 billion, will be paid by insurance plans purchased by subscribers and their employers.

Dr. Yoo said in an interview here last week that he undertook the study because of the tobacco industry's importance to the Southeastern economy. He also said he received no funds from either the tobacco industry or health groups.

The economist began his research on taxes and cigarette sales in 1983 and concluded his work in 1984. John Bishop, now a doctoral candidate at the University of Alabama, assisted him.

The study's conclusions were based on economic analysis of material covering the 1954-80 period. Data came from the federal government, academic studies and the tobacco industry.

Although the 1982-84 period isn't covered by his work, Dr. Yoo said data from these years support his conclusions.

U.S. cigarette retail sales reached 639.2 billion in 1982. The median price per pack that year was 81.9 cents with median state and federal tax amounting to 21 cents per pack. Median is the middle number in a series.

The federal tax doubled the next year to 16 cents per pack from 8.

Domestic sales fell to 599.8 billion cigarettes. The median price for a pack reached 94.7 cents and the median tax rose to 31.4 cents.

The federal tax continued during 1984. Cigarette sales fell to 596.7 billion that year. Median price per pack rose to 97.8 cents and median tax per pack amounted to 31.6 cents.

In a related event Friday, the U.S. House of Representatives voted to continue the 16-cent per pack federal cigarette tax that had been due to expire at the end of September.

President Reagan signed a short-term extension of the tax, passed by Congress in late September, but he has indicated he would veto a permanent extension of the tax increase, voted by Congress in 1984.

If the 16-cent tax is not continued, the levy would revert to the 8-cent tax in effect before last year.

The tax provision was included in a budget reconciliation bill approved by the House on a 245-174 vote. The bill is one of three House measures designed to bring fiscal 1986 spending in line with the budget resolution passed by Congress this summer.