

Issues – Is taxation the best policy to solve the problem of smoking?

Why does taxation contribute to the rise of contraband tobacco?

Taxation is one of the most common forms of government regulation to curb the harmful impacts of tobacco on human health. However, taxation has given rise to several problems, like the rise of **contraband tobacco**.

The imposition of tax may be politically unfavorable as consumers face a diminished purchasing power which would worsen standard of living, especially for the lower income group. In worse scenarios, taxation may result in the rise of social dissatisfaction, manifested in the form of illegal strikes and protests, seen in the case of Indonesia. When the Indonesian government announced the decision to raise excise tax on cigarettes from 6% to 7% in 2009, thousands of workers staged protests and rejected the policy. In 2011, thousands of tobacco farmers surrounded the presidential palace in Jakarta in **protest of a tobacco bill** that threatened domestic employment.

Also, consumers are resistant to taxation as habitual consumption of cigarettes implies that the price elasticity of demand (PED) for cigarettes is price-inelastic. Therefore, the increase in the price of cigarettes may not lead to a proportionate fall in quantity demanded of cigarettes.

In addition, the over-imposition of tax may encourage contraband cigarettes, thus offsetting the benefits of government regulation. When there is a tax hike on cigarettes, the price of cigarettes sold would increase, prompting consumers to seek out cheaper but illegal alternatives, like smuggled cigarettes, to satiate their nicotine addiction. When cigarettes become relatively more expensive after taxation, smugglers have more incentive to sell contraband, while consumers have more incentive to buy illicit cigarettes. According to the Straits Times, smokers in Singapore consumed 900 million contraband cigarettes, which is the fourth-highest rate of illicit tobacco use in Asia. Furthermore, a study funded by tobacco firm Philip Morris International found that 1 in 4 cigarettes in Singapore were illicit.

Taxation may contribute to the under-consumption of cigarettes, resulting in the rise of illicit cigarettes purchase. Taxation may not achieve a socially optimal level of consumption of tobacco as it is difficult to quantify the external cost incurred by the third-party, seen in terms of health costs incurred from second-hand smoking.

In sum, the government needs to carefully set a desirable level of tax on tobacco to minimize the proliferation of contraband tobacco. It is imperative to implement other policies like public education and smoking ban in enclosed areas to further mitigate the detrimental effects of smoking.

Students who are interested to learn more, you can join our GCE A level preparation class. Please call Simon Ng @ 96890510 for more consultation.

