

# Taxing “Bads”

## An Overview of Research Initiatives

*Ruth Lopert*

Around the world, development economists and researchers are exploring proposals to tax excise goods, and several have produced models demonstrating that such taxes can generate substantial revenues. This note attempts to list the organizations and research initiatives currently addressing taxation of tobacco, alcohol, and sugar-sweetened beverages—the “bads”—to help navigate the landscape of existing research and identify gaps and opportunities for further work.

### TOBACCO

#### **International Development Research Centre and Cancer Research UK**

In a partnership focused on supporting innovative fiscal policy research on tobacco control in low- and middle-income countries, the Canadian [International Development Research Centre](#) and [Cancer Research UK](#) are together funding a series of projects under the rubric of the [Economics of Tobacco Control Research Initiative](#).

In the first funding round, seven teams spanning 20 countries will conduct policy-relevant research with the objective of articulating an evidence-based, economic rationale for the prevention of tobacco-related diseases:

1. [Strengthening the evidence for advancing tobacco control policy in Mexico, Colombia, and India.](#)

Led by the [Instituto Nacional de Salud Pública](#) in Mexico, this project will focus on expanding the use of extended cost effectiveness analysis to enhance its value in tobacco tax analyses, with the goal of:

- strengthening research capacity on tobacco economics in each country;
- investigating financial protection benefits associated with significant excise tax increases in each country; and
- generating tax structure recommendations for each country and implementing them as policy tools to inform decision-making.

## 2. Tobacco tax reforms to promote economic development in West Africa.

The [Economics of Tobacco Control Project](#) at the University of Cape Town (project lead), the [International Centre for Tax and Development](#), and the [Consortium pour la recherche économique et sociale](#) based in Senegal will work together to identify:

- best practices in tobacco taxation, focusing on the impact of tobacco tax increases on tobacco consumption, government tax revenue, and industry pricing of tobacco products;
- the economic impact of tobacco control policies;
- policy barriers to fiscal measures; and
- financing mechanisms for tobacco control.

## 3. Fostering effective tobacco control policy implementation in Nigeria

Led by the [Centre for the Study of the Economics of Africa](#) in Nigeria, the project aims to obtain local evidence on the optimal taxation structure and levels for tobacco products and the burden of tobacco-related diseases, and to tackle the unfounded concern that tax hikes will increase illicit trade. The evidence will be used to model tax impositions using the Tobacco Excise Tax Simulation Model developed by the University of Cape Town. The team will also collect survey data from public hospitals that inform economic micro-simulations to estimate the optimal tobacco tax rate and structure; assess the economic costs of tobacco-use across various groups, as well as the cost-effectiveness of control interventions; explore the impact of tax changes on illicit trade; and identify cost-effective measures for curbing illicit trade on tobacco products.

## 4. Gathering new evidence on the economics of waterpipe tobacco smoking in the eastern Mediterranean

Led by the American University of Beirut (a [WHO Framework Convention on Tobacco Control Knowledge Hub for waterpipe tobacco smoking](#)), a team of experts and institutions from Lebanon, Jordan, Egypt, the West Bank, and Gaza will use household surveys in each country to generate national data on the prevalence of cigarette and waterpipe smoking in adults (overall and gender-specific) and use these to model the effects of fiscal policies on waterpipe smoking rates and healthcare costs, in addition to estimating impact on government revenues.

## 5. Making tobacco taxation work in Vietnam

Vietnam has one of the highest rates of tobacco use in the world. The Vietnamese government recently increased excise taxes on tobacco products to 75 percent and has proposed a switch from the current ad valorem tax system to a mixed excise tax system (based on quantity and value) to make tobacco products even less affordable to the population. Led by the [Development and Policies Research Center](#), an independent think tank established in 2005, the project aims to address the following questions:

- How will the tobacco industry react in response to changes in tobacco taxation policy?
- Would the impact of new strategies by the tobacco industry vary across income levels and socio-economic groups?
- How will consumers change their behaviour in response to changes in tobacco taxation?

The research will track and investigate the responses of both consumers and industry to tobacco pricing to evaluate the effectiveness and inform the design and implementation of future tobacco tax policies.

#### 6. [Measuring tobacco-attributable costs and illicit trade effects for optimal tobacco tax scenarios in eight Latin America countries](#)

The purpose of this research is to inform decision-making in eight Latin American countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Peru) on policies to increase tobacco taxes. Led by the [Institute for Clinical Effectiveness and Health Policy](#) in Argentina, the project will:

- identify the current information needs of decision-makers for tobacco control in the eight Latin American countries;
- develop a methodology to estimate the indirect productivity costs associated with smoking (premature death, absenteeism, etc.);
- model the effects of potential illicit trade on the price of tobacco products, level of consumption, the burden of disease, and tax revenue in the selected countries;
- analyze the expected impact of tax hikes; and
- disseminate the results in participating countries.

#### 7. [Improving the implementation of tobacco taxation in Southeast Asia](#)

Led by the [Ateneo School of Government](#), the project will address the knowledge gaps concerning tobacco tax evasion and the illicit tobacco trade in the Philippines and Southeast Asia. The data will be used to estimate the fiscal, health, and economic costs of the illicit tobacco trade in Southeast Asia, and ultimately to develop a new tobacco tax evasion index that will be piloted in several Southeast Asian countries.

### **Research Councils UK**

The [Tobacco Control Capacity Programme](#) is a £3.4 million programme of training and research funded by Research Councils UK as part of the [Global Challenges Research Fund](#). It brings together academics at five UK universities who are all part of the UK Centre for Tobacco and Alcohol Studies, a UK Clinical Research Collaboration Centre for Public Health Excellence, as well as research organizations in Bangladesh, Ethiopia, The Gambia, Ghana, India, South Africa, and Uganda. The grant also involves staff from Cancer Research UK's international tobacco control programme. The research will focus in particular on three issues relevant to Sustainable Development Goal 3: tobacco taxation; preventing illicit trade in tobacco and preventing tobacco industry interference.

### **Institute of Economic Sciences Belgrade**

The [Institute of Economic Sciences](#), a research institute based in Belgrade, is coordinating a [regional network of research](#) on tobacco taxation in the Western Balkans. The research focuses on knowledge gaps in the economic and fiscal aspects of national tobacco taxation policy critical to informing effective tax policy. Research topics include costs and benefits of tobacco to government budgets; labour impacts; illicit trade; tax compliance of the tobacco industry, including tax evasion and avoidance; and tobacco tax impacts on inequality. Outputs include a [regional study on the economics of tobacco](#)

and tobacco taxation in the Southeast Europe countries and the policy brief “Improving Tobacco Taxation Policies In Southeastern Europe.”

## **Tobacconomics**

[Accelerating Progress on Tobacco Taxes in Low and Middle Income Countries](#) is funded by the [Bloomberg Initiative to Reduce Tobacco Use](#). It aims to build capacity of economic and fiscal policy focused think tanks to provide evidence-based support for effective tobacco taxes. [Tobacconomics](#) (a program of the University of Illinois at Chicago) has already established partnerships with 22 think tanks in 17 countries, working with them to increase their capacity to provide policy support to governments and civil society for tobacco taxation, and to counter industry arguments against tobacco taxes. In addition, the project supports strategic engagement with high-level government officials and other stakeholders to raise awareness and strengthen the technical capacity of tobacco tax policymakers. Leveraging the [Tobacconomics](#) platform, the project provides an information and resource hub to share knowledge and elevate the profile of tobacco taxation in tobacco control policy.

An [economic model](#) developed jointly by [the Campaign for Tobacco-Free Kids](#), the [American Cancer Society Cancer Action Network](#), and [Tobacconomics](#) projects the increase in state revenues, public health benefits, and health care cost savings resulting from increases in state cigarette tax rates. The projections are updated annually.

## **WHO Tobacco Free Initiative**

The [WHO Tobacco Free Initiative's](#) economics team has been working closely with several countries to examine the structure and dynamics of their tobacco markets, and to help implement better tobacco tax policy. This has led to the development of the [WHO Tobacco Tax Simulation \(TaXSiM\)](#) model to help countries with tax policy analysis, impact assessment, and decision-making. The model can be used to describe the current market and tax situation for domestically consumed cigarettes within a particular country or tax jurisdiction, and then to forecast the impact of tax changes on final consumer prices, annual consumption volumes, and tax revenues for the government. TaXSiM is designed to reflect the wide range of different tax structures and systems in place on tobacco products throughout the world.

## **Global Alliance for Chronic Diseases**

In a \$1.5 million, five-year project initiated by the [Southern Africa Labour and Development Research Unit](#) and funded by the [Canadian Institutes of Health Research](#), the [International Development Research Centre](#), and the [South African Medical Research Council](#), researchers are studying the impact of tobacco prices on smoking onset, smoking cessation, and tobacco consumption in Chile, Colombia, Ecuador, South Africa, and Vietnam. The effects of both tax and retail price will be further analyzed by socioeconomic status, sex, and age with simulations to determine the ultimate impacts on tax revenue, tobacco use, and health outcomes, as well as the effects of cigarette packaging, and of major recent country-specific policy changes. Evidence generated by this research will be used to address tobacco industry claims that tobacco taxes harm vulnerable populations and lead to increased consumption of illicit cigarettes, and that packaging policies are ineffective.

## World Bank Group Global Tobacco Control Program

The [World Bank's Global Tobacco Control Program](#) assists countries in designing tobacco tax policy reforms and increasing tobacco tax rates as policy measures to: (i) address public health goals of reducing smoking and discouraging smoking initiation among young people, (ii) raise domestic resources for investments that benefit the entire population, and (iii) enhance equity by reducing health risks associated with tobacco-attributable diseases and the risk of impoverishment due to high out-of-pocket expenditures among the lowest income population groups, who tend to be more responsive in reducing consumption when facing higher tobacco prices. It also supports countries in addressing illicit tobacco trade by strengthening customs systems. The program has supported tobacco tax policy reforms in Armenia, Azerbaijan, Belarus, Botswana, Colombia, Gabon, Ghana, Indonesia, Kazakhstan, Lesotho, Moldova, Mongolia, Montenegro, Nigeria, Philippines, Senegal, Sierra Leone, Tonga, Ukraine, and Uzbekistan, as well as assessments of tobacco tax systems and policy implications in more than 20 countries around the globe.

The program also supports knowledge exchange among selected countries on the economics of tobacco control (for example, through the [World Bank Group Flagship Training Program on Health Reform](#) targeting national officials, and the Joint Learning Network [Economics of Tobacco Taxation Toolkit](#)). The global report [Tobacco Tax Reform: At the Crossroads of Health and Development](#) launched in October 2017, sets out the public health, economic, and anti-poverty case for higher tobacco taxes, while [Confronting Illicit Tobacco Trade: A Global Review of Country Experiences](#) presents country and regional case studies and provides practical information on addressing illicit trade in tobacco. Most recently [Is Tobacco Taxation Regressive? Evidence on Public Health, Domestic Resource Mobilization, and Equity Improvements](#) assesses the ability of taxes on tobacco to improve future health and welfare outcomes, with a focus on their distributional impact and effects on the poor. In addition, the World Bank has contributed to the development of a Tobacco Taxation Module in the WBG/IMF Tax Policy Assessment Framework, part of a new WBG/IMF/OECD/UN initiative launched in February 2018 and geared to help member countries assess and strengthen their tax systems. See [also](#) this background note.

## ALCOHOL

### World Health Organization

In the [WHO global strategy to reduce the harmful use of alcohol](#), pricing policies represent one of the key areas recommended for governments to use. WHO's global noncommunicable diseases (NCDs) action plan 2013-2020 contains a menu of policy options and interventions for prevention and control of major NCDs. An updated list of the most effective and complementary policy options recommends increasing excise taxes on alcoholic beverages as one of the most cost-effective interventions governments can use. To that end, in conjunction with the [Center for Alcohol Studies](#), Thailand, and the [Centre for Addiction and Mental Health](#), Canada, WHO has developed a [resource tool on alcohol taxation and pricing policies](#). This resource tool is intended to enhance knowledge and competence relating to taxation and pricing policies among public health professionals and alcohol-control policy advocates, to support the inclusion of key public health perspectives in the design and implementation of alcohol taxation and pricing policies.

## SUGAR-SWEETENED BEVERAGES

### UNC Chapel Hill

The [Global Food Research Program](#) at UNC Chapel Hill addresses effective ways to improve diets and prevent obesity by focusing on five major areas of large-scale, national regulatory efforts, one of which is the taxation of sugar-sweetened beverages, nonessential foods (i.e., “junk food”), or sugar. Currently collaborations are underway with eight countries, seven in central and Latin America, and South Africa

### Of Note

Allcott, Hunt, Benjamin Lockwood, and Dmitry Taubinsky. 2019. *Should We Tax Sugar-Sweetened Beverages? An Overview of Theory and Evidence*. The authors review the basic economic principles that determine the socially optimal sugar-sweetened beverage tax and summarize the empirical evidence about the key parameters that determine how large the tax should be. They find that sugar-sweetened beverage taxes are welfare enhancing and offer seven concrete suggestions for policymakers considering a sugar-sweetened beverage tax.



**RUTH LOPERT** is a non-resident fellow at the Center for Global Development.

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