

“Cigarette Excise Taxes Protect the Public’s
Health and Improve North Carolina’s Economy:
A Policy Analysis”

By Sarah E. Cox
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Approved by:



Content Reader: Dr. Adam Goldstein, MD



Second Reader: William Williamson, MPH

Abstract:

Tobacco use is the number one cause of preventable death and disease in the United States and in North Carolina. The carcinogenic composition and addictive nature of tobacco products make tobacco use a difficult public health problem to address. In North Carolina, cigarette smoking is responsible for thousands of deaths and billions of dollars in health care costs each year. Smoking is not only harmful to the smoker, but also to persons exposed to secondhand smoke and to unborn fetuses whose mother's smoke while pregnant.

Despite the negative effects of smoking in North Carolina, the agricultural sector still perceives the tobacco crop to be of considerable importance to North Carolina's economy. Furthermore many North Carolinians perceive tobacco farming to be a primary contributor to the overall welfare of the state. Therefore, measures that reduce tobacco consumption are often deemed unacceptable by lawmakers in the state. However, evidence shows that reducing tobacco consumption in North Carolina is neither the primary nor a major cause of declines in demand for North Carolina grown tobacco.

In order to effectively reduce tobacco consumption, and specifically smoking rates, lawmakers must be presented with a policy option that would protect the public's health while simultaneously providing assistance to tobacco farmers – regardless of the cause of declining demand for North Carolina grown tobacco. A substantial cigarette excise tax increase would significantly decrease cigarette consumption in North Carolina and the resulting new state tax revenues could be spent on initiatives to help tobacco farmers who are already facing declining demand for their crop.

Since 1995, the U.S. has seen a number of cigarette excise tax increases as the health community gains evidence that this policy intervention is the most effective way to reduce smoking rates. Research indicates that for every 10% increase in the cigarette excise tax there is a 4%-5% decline in consumption, demonstrating the inelasticity of demand for cigarettes ("Raising Cigarette Taxes," 2002). Regardless of this relatively small decline in consumption, price increases appear to be the most cost-effective and feasible means for addressing the tobacco use problem in the U.S.

Excise tax increases, coupled with health behavior interventions such as media campaigns, education and health services have resulted in a consumption decline of approximately 3% nationally since 1995 ("Raising Cigarette Taxes," 2002). However, demand for U.S. grown tobacco has declined by almost 32% during the same time period. In states where a number of communities are dependent on tobacco as a cash crop, this decline has had a significant effect on the economy (Gale, Foreman, & Capehart, 2000). In NC, where tobacco is the fourth leading cash crop (NC Dept. of Agriculture, 2003), farmers struggle to maintain their income level and oppose measures that contribute to declines in demand for their crop.

Despite a number of government sanctioned reports in the early 1990s, however, it has become clear that public health interventions, and indeed cigarette excise tax increases, are not the major cause of declining demand for domestically grown tobacco (Foreman, 2003). More recent evidence indicates that American tobacco manufacturing companies have significantly increased their purchase of foreign-grown tobacco since the mid-1990s while steadily decreasing the amount they purchase from U.S. farmers (Gale et al, 2000). Clearly, a number of factors

have influenced this trend, and this analysis will attempt to make clear why the tobacco industry has changed its purchasing behavior.

Specifically, this analysis will attempt to pinpoint the factors that have reduced demand for North Carolina grown tobacco and to demonstrate the degree to which a revenue-raising cigarette excise tax could provide assistance to the state's struggling tobacco farmer and overall relief to the state's economic crisis.

Background Analysis

Tobacco and Public Health

Tobacco use is the leading cause of death and disease in the United States and in NC – and it is 100% preventable. This public health burden affects a disproportionate number of people of lower socioeconomic status, minorities and young people. There are at least sixty known human carcinogens in tobacco smoke (including formaldehyde, benzo(a)pyrene and nitrosamines) that may result in any number of cancers, including lung cancer, pancreatic cancer, cervical cancer and prostate cancer (“Cancer Facts,” 2000). In addition, smoking is associated with increased risk of cardiovascular diseases such as heart attack, stroke and hypertension and is a known cause of emphysema, chronic obstructive pulmonary disorder (COPD) and other chronic lung diseases (TIPS, 2003).

Although smoking rates have declined since 1965, when a Surgeon General's report first identified smoking as being harmful to health, the rate of decline has leveled off in the past decade (Reducing Tobacco Use, 2002). Despite redoubled efforts of the health community to educate North Carolinians about the dangers of tobacco use, provide options for nicotine dependence treatment and smoking cessation and prevent initiation of tobacco use, 25.7% of the

state's adult citizens are still identified as smokers (BRFSS, 2001) . Tobacco dependence is especially likely among NC's children (under age 18) and minority populations (Hispanic/Latino and Native American) (BRFSS, 2001). In 2001, 26.5% of NC's adult Hispanic population and 31% of NC's other minority populations reported being current smokers compared to the overall adult smoking rate of 25.7%. 35.1% of North Carolina's middle and high school students report having used cigarettes (YTS, 2001).

Although smoking is clearly dangerous for the smoker, serious health effects also result when non-smokers are exposed to environmental, or secondhand, tobacco smoke (ETS). The California Environmental Protection Agency published a report in 1999 that showed a significant causal relationship between exposure to ETS and developmental effects (SIDS, low birth weight), respiratory disease (COPD, asthma, bronchitis), cardiovascular disease (heart attack, hypertension) and cancer.

The Campaign for Tobacco Free Kids has compiled extensive information on the health and economic effects of tobacco use in North Carolina from the CDC, the U.S. Department of Health and Human Services, and the Substance Abuse and Mental Health Services Administration. This data indicates that 58,800 NC youth try cigarettes for the first time each year, 416,000 youth are exposed to ETS in the home and 12,700 to 13,630 NC citizens die each year from tobacco caused illness. NC State Medicaid payments caused by tobacco use exceed \$600 million each year and overall healthcare expenditures directly related to tobacco use exceed \$1.92 billion ("Toll of Tobacco...", 2002).

Tobacco Use Prevention and Cessation Intervention Activities

The Centers for Disease Control and Prevention (CDC) have identified “Best Practices” for reducing tobacco use among Americans. These tactics are divided into four priority areas:

1. Prevent initiation of tobacco use among youth.
2. Eliminate health disparities related to tobacco use
3. Promote policies which result in smoke-free environments
4. Provide services for tobacco use cessation and treatment

In 2000, North Carolina’s health and tobacco control communities developed “Vision 2010,” a comprehensive plan for reducing tobacco use and the resulting disease and death based upon these four CDC priority areas (North Carolina Department of Health and Human Services, 2001). The Vision plan, in concordance with the CDC’s “Best Practices for Comprehensive Tobacco Control Programs” (August 1999) calls for evidence-based public health interventions addressing each of the priority areas that include services, education, advocacy, media and outreach. These “Best Practices” are based on successful programs in Massachusetts, California, Florida and Oregon and encompass a wide range of specific intervention practices to address priority areas. North Carolina’s specific intervention goals are to: *(see appendix A for NC activities in each goal area)*

1. Enhance community-based policies and programs for tobacco use prevention and cessation;
2. Enhance school-based policies and programs for tobacco use prevention and cessation;
3. Strengthen policies, enforcement and education to limit youth access to tobacco products;
4. Promote smoke-free air laws and policies;
5. Reach diverse and under-served populations with funding;
6. Support tobacco prevention research and demonstration project grants;
7. Increase public education through media;
8. Promote effective tobacco cessation/treatment policies, programs and services;
9. Establish statewide infrastructure and management for state and local programs;
10. Enhance evaluation and assessment of all tobacco use prevention and cessation programs and policies.

In recent years, a number of states have successfully implemented comprehensive tobacco use prevention and cessation programs that fit the CDC prescribed model. Between 1992 and 1996, Massachusetts reduced its overall smoking rates by 20% following a significant increase in the cigarette excise tax and the implementation of a statewide mass media and education program to compliment the policy change. During the same period, California reduced its smoking rates by 16% as a result of excise tax increases, media and education and local policies changes for smoke-free air. In Florida, funding from the National Tobacco Settlement allowed for the inception of a significant comprehensive tobacco control program based on community and school programs and counter-marketing principles. The state significantly reduced youth tobacco use between 1998 and 1999.

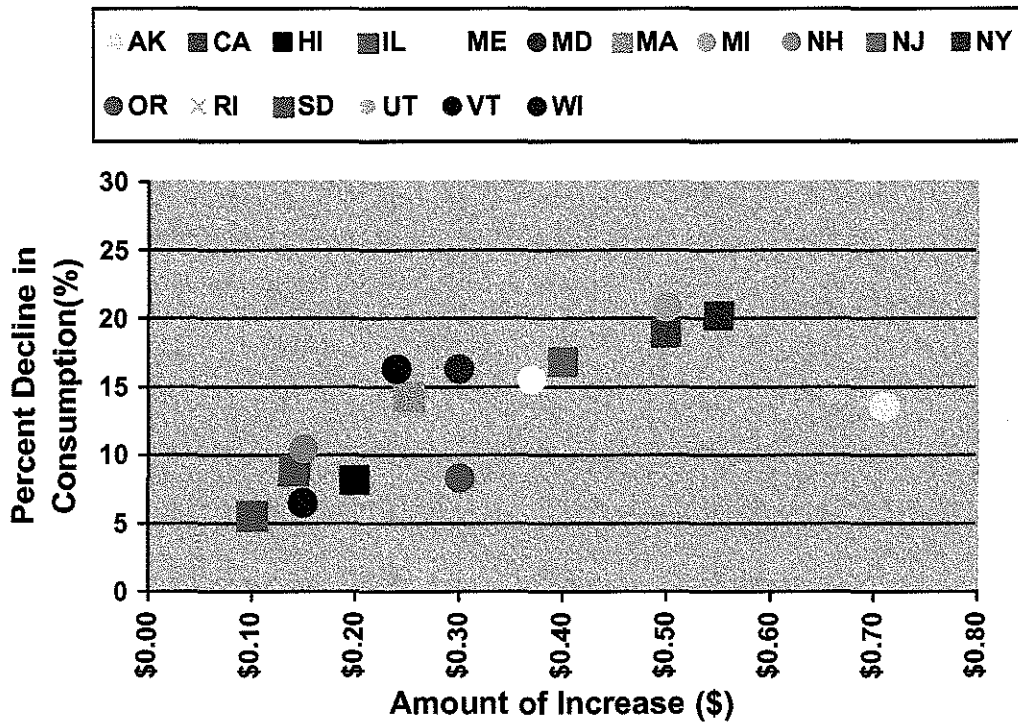
Cigarette Excise Taxes as part of Comprehensive Tobacco Control

Excise taxes are levied on the manufacturers and wholesalers of tobacco products. The tax impact is then passed on to consumers by increases in the retail price of the product, leaving consumers to bear the tax burden because demand for cigarettes is relatively inelastic (AER-789, 2002). However, demand for cigarettes is elastic enough that declines in consumption do occur.

Numerous studies published in the last two decades have a found definite and significant relationship between increased cigarette prices and declining consumption. Evidence from these studies indicates that a 10% increase in the overall price of cigarettes results in a 3 to 4 % decline in adult smoking rates and a 7% decline in youth smoking rates (Raising State Cigarette Taxes...,” 2002). Between May 1994 and March 2000 seventeen states increased their cigarette excise tax by an average of \$.306 per pack resulting in an average smoking decline of 13.39%.

The following graph illustrates the trend among these seventeen states as they increased the cigarette excise tax:

Increases in Cigarette Excise Tax and Resulting Decline in Cigarette Consumption



Though cigarette excise taxes always reduce consumption of cigarettes, the most price-sensitive demographic groups show the most dramatic decline in usage rates. The price elasticity of demand for cigarettes is significantly lower for consumers with less disposable income. For example, consumers under the age of 18 can be three times as price-sensitive as adults. Low-income adults are also significantly more price-sensitive than persons of higher socioeconomic status. In this way the cigarette excise tax is not economically regressive. Indeed, long-run data on cigarette excise tax revenues suggests the tax burden shifts to a progressive pattern and that

the health effects associated with the tax are more likely to be demonstrated in lower income populations.

In addition to encouraging current smokers to quit or cut back on consumption, some evidence exists that cigarette excise tax increases can also prevent initiation of smoking. A 2001 study administered by the University of Illinois at Chicago “clearly indicate[d] that increases in the price of cigarettes...significantly reduce[s] the number of adolescents who start smoking. (Tauras, O’Malley & Johnston, 2001).” This study also concluded that increasing the price of cigarettes is more effective at reducing youth smoking rates than policies that aim to reduce youth access to tobacco products such as licensing of establishments to sell tobacco, increased penalties for underage sales and purchase and product placement restrictions.

Cigarette Excise Taxes and the Economy

Not only do cigarette excise taxes reduce the death and disease associated with smoking, they also increase government tax revenues and reduce costs associated with lost productivity and health care. North Carolina’s Medicaid program currently spends over \$600 million on treatment for tobacco related illness. This contributes to \$1.92 billion in overall health care care expenditures caused by tobacco use in the state. In addition, productivity losses, such as employee sick days and lost working time, attributable to tobacco use amount to \$2.82 billion annually (“Toll of Tobacco...,” 2002). A portion of these costs can be recovered through increased cigarette excise taxes even if the resulting revenue is not earmarked specifically for health related programs as illustrated below:

Cost Savings and Revenue Generated by Cigarette Excise Tax Increases (NC) (CTFK 2002)

Tax Increase Amount	New Tax Revenue (excise and sales tax)	5-Year health care savings	Long-term health care savings
\$.50	\$382.4 million	\$27.6 million	\$1.25 billion
\$.75	\$552.8 million	\$41.3 million	\$1.87 billion
\$1.00	\$709.4 million	\$55.1 million	\$2.5 billion

An important trend to note in new tax revenues that would result from an increase in North Carolina's cigarette excise tax is that state sales tax revenues increase despite reduced product consumption. New sales tax revenue is projected to be \$8.6 million, \$12.1 million, and \$15 million after \$.50, \$.75 and \$1.00 per pack excise tax increases respectively.

An inherent problem with excise taxes is that they must continually be raised over time to maintain their effect on consumption levels. A cigarette excise tax, which is a federal or state tax imposed on the manufacture and distribution of cigarettes, is based on the quantity of cigarettes being sold per unit. For example, a \$.50 per pack cigarette excise tax increase would legally be referred to a \$.025 per cigarette excise tax increase. Because excise taxes are not based on product value (ad valorem taxation), the real value of the tax decreases as prices inflate over time. As a result, a cigarette excise tax raised a decade ago will no longer result in fewer cigarettes being smoked (Chaloupka et al, 2000).

Tobacco Grower Opposition to Increased Cigarette Excise Taxes

Despite clear evidence in support of increased cigarette excise taxes as a means to reduce death and disability, cut state healthcare costs and raise new revenue, tobacco-growing states like North Carolina experience resistance to the measure. Because North Carolina is the top tobacco producing state in the U.S. and because tobacco is the number four cash crop for the state, any initiative aimed at reducing consumption of tobacco must not cause significant economic harm to tobacco growers or manufacturers in order to be politically viable at the state level. Though a

perception exists that successful tobacco control measures are responsible for declining demand for U.S. grown tobacco, it is clear that a number of other factors have a far greater effect on unmanufactured tobacco sales in NC (*See Appendix B*).

In 2001, the North Carolina tobacco crop resulted in \$686,000,000 (\$433,100,000 in exports) in cash receipts, 11.2% of the total NC farm receipts. Only hogs, broilers, and greenhouse/nursery plants exceeded tobacco in value. In addition to farming of tobacco, the tobacco manufacturing industry also has a strong presence in North Carolina comprising about 5% of the gross state product (Foreman, 2003) (*See Appendix C*).

Recent trends in tobacco production indicate that farm output has increased during the last decade but at a slower rate (2161 lbs/acre in 1999 to 2393 lbs/acre in 2001). Price per unit of tobacco grown in NC has also increased (\$1754/unit to \$1858/unit) though value of production has decreased slightly (North Carolina Department of Agriculture and Consumer Services – Agricultural Statistics Division, 2003). Finally, between 1991 and 2000, per capita consumption of cigarettes in the U.S. has dropped from 2,834 to 2,014 (Foreman, 2003).

However, in a full analysis of the impact of cigarette excise taxes on tobacco producers, it is limiting to look only at the domestic market for cigarettes. Extensive research into the causes of declining demand for domestic tobacco indicates that domestic cigarettes contain an increasing proportion of foreign-grown tobacco while domestic demand is declining, foreign demand is increasing at a greater rate (ERS, USDA “Commodity Spotlight”). Most importantly, key research indicates that the decline in overall consumption associated with increased state cigarette excise taxes is relatively small (compared to declines attributable to other factors) and therefore has a minimal economic effect on tobacco farmers in NC.

Cigarette Excise Taxes and Demand for NC-Grown Tobacco

Because North Carolina smokers make up a relatively small percentage of all tobacco consumers, significant reductions in the state smoking rate have an insignificant effect on overall demand for NC tobacco. In 2001, 73.4% of all U.S.-grown burley tobacco and 60% of all U.S.-grown flue-cured tobacco was sold to domestic manufacturers for cigarette production (the remainder was sold to foreign manufacturers). However, only about 70% of U.S. made cigarettes are actually smoked in the U.S. This means that smoking in the entire U.S. accounts for only 52% of total demand for U.S.-grown burley tobacco and 45% of U.S.-grown flue-cured tobacco. Cigarette sales in NC account for only about 3.7% of all U.S. cigarette sales. Therefore, smoking in NC accounts for only 1.9% of the demand for burley tobacco grown in the U.S. and only about 1.7% of flue-cured tobacco grown in the U.S. If, for example, the cigarette tax were to increase in NC by \$.50, resulting in a 6.6% decline in the smoking rate, American-grown burley and flue-cured tobacco demand would reduce by .13% and .11% respectively (CTFK). It follows that the reduction in demand for North Carolina grown tobacco would be less than one-tenth of one percent.

Between 1995 and 2001, a number of states increased their cigarette excise tax and demand for NC grown tobacco decreased. The average excise tax increase during this time period resulted in an increase in cigarette price per pack of about 20% while national cigarette consumption declined (on average) by only about 11% ("Raising State Excise Taxes..."2002). In economic terms, a decrease in consumption can be equated with a decrease in demand for the product. However, domestic tobacco farmers were faced with a total demand decline of almost 32%. It is clear that factors besides cigarette tax increases must also contribute to the decline in demand of NC grown tobacco.

A report of the Campaign for Tobacco-Free Kids tracked leaf-buying practices of domestic cigarette manufacturers over a period of twenty-eight years ("False Friends", 2000).

The study indicated that domestic manufacturers purchase 40% more tobacco from overseas growers rather than domestic growers than they did in 1970. Not only do the domestic manufacturers buy raw materials from competitors of domestic farmers, they also invest heavily in foreign farmers ("False Friends", 2000). Therefore, the decline in demand for U.S.-grown tobacco can, in part, be attributed to increased purchases of foreign-grown tobacco. The following chart demonstrates the shift in purchasing practices of U.S. cigarette manufacturers:

Year	Domestic Tobacco		Foreign Tobacco	
	Pounds of tobacco purchased by U.S. manufacturers (lbs)	Percentage of total purchase by U.S. manufacturers	Pounds of tobacco purchased by U.S. manufacturers (lbs)	Percentage of total purchase by U.S. manufacturers
1996	855,000,000	74%	297,271,000	26%
2001	588,000,000	51%	571,100,000	49%

The total decline in market share for domestically grown tobacco is about 23%. Significantly, this does not reflect a decline in the tobacco manufacturing industry's demand for all tobacco. As the chart demonstrates, the tobacco manufacturers purchased 7.5 million additional pounds of tobacco in 2001 than they did in 1996, demonstrating increased overall demand.

The tobacco industry has also shifted more resources into selling cigarettes in foreign markets. Though the U.S. consumer has historically been the primary market for U.S. manufactured tobacco products, declines in domestic consumption have led tobacco manufacturers to expand their market to other countries. Therefore, it is an incorrect perception

that domestic manufacturer profits are declining, leaving these companies less able to purchase domestic leaf inflated by government price supports. For example, in 1998, Philip Morris made a profit of \$5 billion selling cigarettes overseas, compared to \$1.5 billion from cigarette sales in the United States.

Tobacco Growers, Legislators, Public Health and the Tobacco Industry

In some ways the interrelationship of tobacco growers, the public health community, the tobacco industry and state-level legislators is intuitive, however it is useful to clearly explain this relationship as a precursor to a policy analysis. First, tobacco growers and the tobacco industry have a clear economic motivation to maintain or increase demand for tobacco products.

Therefore measures that seek to reduce this demand, like the cigarette excise tax, are in direct conflict with the economic viability of this sector in the U.S. The public health community has an ethical, professional and economic incentive to reduce tobacco consumption and its resulting illness and therefore will support cigarette excise taxes.

The political community is not so simple to explain. In order to best define how legislators and other political leaders play into this mixed relationship, one must first define the factors that motivate political decisions. Listed below are a few of the more influential factors in the political process as defined by the American Cancer Society's Advocacy Institute in 1999:

1. Constituent pressure (direct, in the form of personal letters and conversations)
2. Party platforms
3. Personal convictions (those of the politician)
4. Media pressure
5. Public perception (may be delivered via the media, lobbying or other legislators)

In the instance of cigarette excise taxes, each player contributes to these influential factors. First, the media (particularly in North Carolina) is likely to portray cigarette excise taxes as being regressive and harmful to tobacco growers and manufacturers. This is often fueled by public perception, advocates for growers and manufacturers, personal convictions and party platforms. However, the public health community also applies media and constituent pressure while working to change public perceptions to favor cigarette excise taxes. Because the public health community has few resources to fight opposition from more than one sector affected by a cigarette excise tax increase, it may be necessary to eliminate or diffuse one or more of these opposing lobbies. The following chart illustrates the degree to which each major sector (public health, tobacco industry and tobacco growers) influence political decisions, what position results from this influence and what this influence is based on. It illustrates that there is a larger amount of opposition to cigarette excise taxes, whether based in fact or not, than there is support. In the political analysis that follows this background analysis, diffusing this opposition will be addressed in detail.

Political Influence of Three Major Sectors Affected by Cigarette Excise Taxes

Factors which Influence Politicians	Sectors that Shape These Factors	Resulting Political Position	Explanation
Constituent pressure – direct pressure from the voting public, usually in the form of letters or conversations	Public Health	Pro- Cigarette Excise Tax	Non-smokers and health advocates may support
	Tobacco Industry	Anti- Cigarette Excise Tax	Industry dependent communities may oppose
	Tobacco Growers	Anti-Cigarette Excise Tax	Grower dependent communities may oppose
Party platforms – positions taken on an issue and agreed upon by national or state political party membership	Public Health	Pro – Cigarette Excise Tax	Typically a liberal platform
	Tobacco Industry	Anti-Cigarette Excise Tax	Conservative platforms may oppose any tax or big government
	Tobacco Growers	Anti-Cigarette Excise Tax	Economies dependent on tobacco may oppose tax
Personal convictions - political position based on personal beliefs or experiences of the politician; often part of the politician's campaign platform	Public Health	Pro – Cigarette Excise Tax	Reducing smoking is “right thing to do”
	Tobacco Industry	Can result in pro- or anti-cigarette excise tax sentiments	Politician may oppose big business or big government
	Tobacco Growers	Anti-Cigarette Excise Tax	Protection of farmer in dependent communities
Media pressure – based on the political positions of popular media. Often large and/or hometown media outlets are most influential	Public Health	Pro – Cigarette Excise Tax	Reducing smoking is “right thing to do”
	Tobacco Industry	Can result in pro- or anti-cigarette excise tax sentiments	Politician may oppose big business or big government
	Tobacco Growers	Anti-Cigarette Excise Tax	Protection of farmer in dependent communities
Public perceptions – cultural norms, beliefs and sometimes even folklore which are pervasive in a community and which may or may not be based in fact about an issue.	Public Health	Pro – Cigarette Excise Tax	Norm is fewer people smoke, tax leads to better health indicators
	Tobacco Industry	Can result in pro- or anti-cigarette excise tax sentiments	Some cultural norm of opposing tobacco industry, but still opposition to govt. intervention
	Tobacco Growers	Anti-Cigarette Excise Tax	Farming community is an economic mainstay, already suffering

Key:

- Support for cigarette excise tax results
- Opposition for cigarette excise tax results
- Possibility for support or opposition

Discussion

State cigarette excise tax increases result in higher retail prices for cigarettes. In turn, the increased price results in reduced consumption of cigarettes. Research indicates that this reduced consumption is attributable to smokers who quit or smoke fewer cigarettes. Though demand for cigarettes is relative inelastic, it becomes more elastic with sufficient increases in retail price. In addition to encouraging consumers to quit smoking or cut back, cigarette excise taxes can also prevent initiation of tobacco use by youth. The most price-sensitive populations reap the most health benefit from increased excise taxes because their price elasticity of demand is more likely to increase in the event of an increased cigarette excise tax.

Though cigarette excise taxes have a profound, positive effect on the public's health, the reduced consumption responsible for improved public health also has a minimal negative effect on demand for North Carolina grown tobacco. However, the potentially devastating declines in demand for North Carolina tobacco are primarily attributable to changes in the purchasing practices of cigarette manufacturers. Indeed, as global consumption of American cigarettes increases, American cigarette manufacturers purchase less American tobacco.

Despite what appears to be an inherent conflict, a policy option exists which can benefit the public's health and North Carolina's tobacco dependent farming communities. In the next section, an analysis of this policy option will be presented along with recommendations for proceeding to make the policy change.

Policy Analysis of Cigarette Excise Tax in North Carolina

History

North Carolina's current cigarette excise tax is \$.05 per pack or \$.0025 per individual cigarette. The last increase in the excise tax took place in 1991 at which time the amount was doubled from \$.025 per pack to \$.05 per pack. Since 1991 the cigarette excise tax has not been a prominent issue in the North Carolina General Assembly (NCGA), though seven bills were introduced during the 2002 Short Legislative Session proposing increases between \$.25 and \$.95 per pack. However, none of the seven bills were ever voted on by the Members of the NCGA. A broad-based coalition of advocates from across the state began an organized advocacy campaign to promote the policy change in 2002.

Cost Effectiveness Analysis

Cigarette excise tax increases are often politically palatable during times of economic downturn because the policy change does not cause the state to incur a new cost. Indeed, the policy change results in substantial new tax revenues for the state. Therefore, a cost-effectiveness analysis must focus on the ability of this particular policy to alleviate existing costs rather than the degree to which this policy will create new costs.

North Carolina's annual Medicaid costs attributable to tobacco caused death and illness exceed \$600 million. Because Medicaid is the fastest growing facet of North Carolina's budget, it is important that the costs associated with tobacco use be recovered through a measure which can also reduce tobacco use. A \$1.00 increase in North Carolina's cigarette excise tax, for example, would raise more than enough revenue (\$694 million) to offset the \$600 million cost. In this respect, cigarette excise taxes are an extremely cost-effective way to reduce tobacco consumption and tobacco-related costs.

Another important component of cost analysis as it relates to a cigarette excise tax increase is the degree to which tobacco farmers in North Carolina can benefit from the increase. Because the tax increase has such a profound public health effect by itself, the new revenue generated by this policy need not necessarily be earmarked for public health programs. Therefore, the new revenue can be used to fund tobacco quota buyouts or to help subsidize the existing tobacco crop in North Carolina. Declines in tobacco industry demand for American tobacco can be offset by increased subsidies for tobacco farmers funded with excise tax revenue.

Political Feasibility of a Cigarette Excise Tax Increase

One of the chief reasons North Carolina has not levied a higher cigarette excise tax is the perception that public support for the policy change is minimal. A survey of 600 North Carolina voters conducted in 2002 showed overwhelming voter support for a cigarette excise tax increase of \$.50 per pack regardless of political party, ethnicity, or region of the state (Global Strategy Group, Inc.) (*See Appendix D*). Overall, 62% of North Carolina voters support an increase in the cigarette excise tax of at least \$.50 per pack, with evidence that voters would cross party lines in support of a candidate who intended to implement this policy change.

However, despite substantial evidence in support of increasing the excise tax, a perception still exists among many North Carolinians that the tobacco crop is the primary source of agricultural income in the state. In a study conducted by the East Carolina University Regional Development Institute, 34.8% of citizens in Eastern North Carolina counties¹ indicated that they perceive agriculture to be the most important economic sector for that region (Delia, et.al., 2002). In reality, agriculture is the fourth most important economic sector in the region behind the manufacturing, government and military sectors. However, voters are more likely to base their decisions on perception than on reality unless they are appropriately educated (Thompson).

Working with North Carolina Tobacco Farmers

In 2001, the President's Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production While Protecting Public Health issued its final report (Major Findings and Recommendations, 2001). Major findings of the Commission were that the government should compensate tobacco farmers for their quotas so that farmers may make a transition to non-dependence on tobacco, that economic development assistance should be provided to tobacco farmers as they become less dependent on tobacco, and that steps should be taken to improve the public's health by reducing consumption of tobacco products. Because the Federal government continues to address the tobacco quota buyout option, the State government has a unique opportunity to offer economic assistance to tobacco farmers in their transition away from growing tobacco. Increasing North Carolina's cigarette excise tax can help

¹ Eastern North Carolina counties grow more tobacco than the remainder of North Carolina. The counties included in this study are: Beaufort, Bertie, Bladen, Brunswick, Camden, Carteret, Chowan, Columbus, Craven, Cumberland, Currituck, Dare, Duplin, Edgecombe, Gates, Greene, Halifax, Harnett, Hertford, Hoke, Hyde, Jones, Lenoir, Martin,

to fund this economic assistance while improving the public's health through reduced cigarette consumption.

Summary of Recommendations

- Initiate a public awareness campaign to change perceptions about the degree to which tobacco farming affects North Carolina's overall economy and the degree to which cigarette excise tax increases as part of a comprehensive, state-level tobacco use prevention and cessation program reduce demand for North Carolina grown tobacco.
- As part of a comprehensive, state-level tobacco use prevention and cessation intervention program aimed at improving public health, increase the cigarette excise tax in North Carolina by at least \$.50 per pack (*See Appendix E*).
- Allocate new excise and sales tax revenues resulting from the cigarette excise tax increase to a comprehensive economic assistance program for current tobacco farmers as part of a larger, national program to gradually reduce farmer dependence on the tobacco crop (*See Appendix E*).
- Conduct extensive, scientifically sound evaluation of all activities involved in and resulting from a policy change in North Carolina to increase the cigarette excise tax by at least \$.50 per pack.

A substantial cigarette excise tax increase not only significantly reduces smoking rates and the ensuing death and disease, but also increases state revenue and decreases health care costs. In addition to being an appropriate legislative action, recent polls have shown that increasing cigarette excise taxes is also palatable to the electorate. In order to insure a healthy future for all

North Carolinians – both physically and economically – lawmakers must take action to reduce and control the number one cause of death and disease in the state. A substantial cigarette excise tax increase not only significantly reduces smoking rates and the ensuing death and disease, but also increases state revenue and decreases health care costs.

Appendix A

Comprehensive Tobacco Control in North Carolina

Major Activities

Strategic Goal Area	Activities
Prevent youth tobacco use and access	Youth Empowerment (StepUpNC, QuestionWhy); Peer Mentoring (Teens Against Tobacco Use, Towards No Tobacco, Dream Team); Tobacco-Free Schools Initiative; Health and Wellness Trust Fund "Preventing Teen Tobacco Use" initiative, excise tax increase advocacy, ALE Sales to Minors Compliance Checks
Promote and support quitting among tobacco users	Cessation programs (Not On Tobacco, Freedom from Smoking, FreshStart, national quitlines); Insurance coverage (NC B.A.S.I.C); Cessation referral (QuitNow NC!, Health Action council)
Reduce disparities by improving health related norms of special populations more adversely affected by tobacco use	Empowerment programs (Ujiima!), Women's health programs, Minority Tobacco Use Prevention strategic plan, Historically Black Colleges and Universities partnerships, underserved community-based funding
Promote smoke-free environments	EnTER program, Voluntary policy change initiative, Tobacco-Free Schools initiative, Environmental community partnership for clean air, local education initiatives

More information on Tobacco Control in North Carolina:

Dept. of Health and Human Services: www.communityhealth.dhhs.state.nc.us/tobacco.htm

American Lung Association: www.lungnc.org

American Cancer Society: www.cancer.org

North Carolina Alliance for Health: www.ncallianceforhealth.org

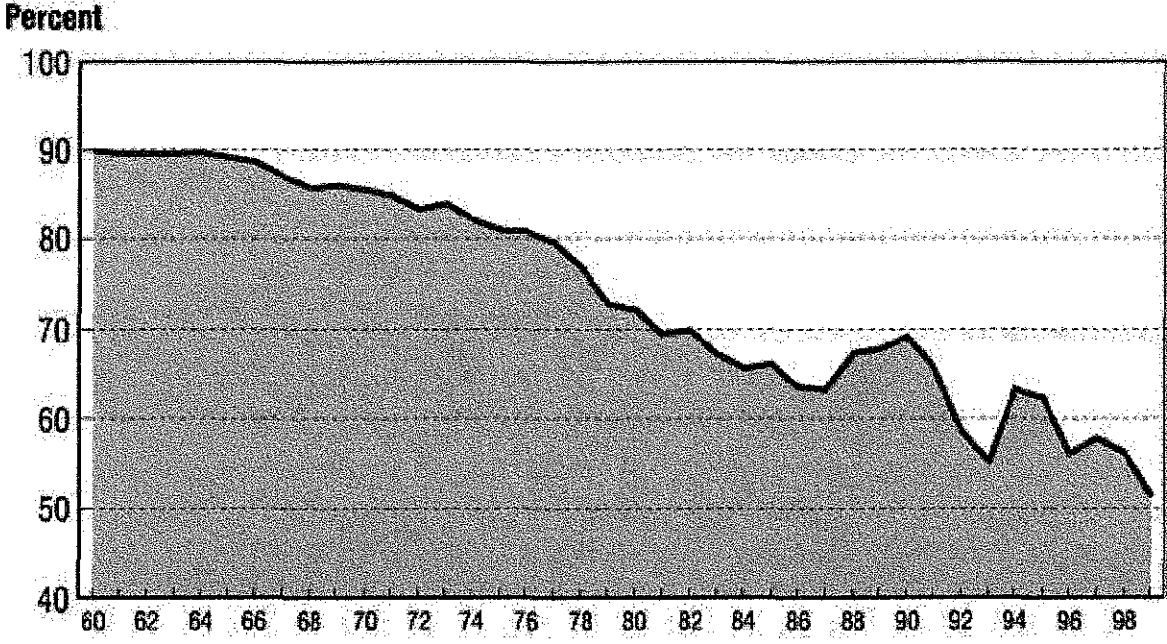
StepUpNC: www.stepupnc.org

NC Prevention Partners: www.ncpreventionpartners.org

Health and Wellness Trust Fund: www.hwtfc.org

Appendix B

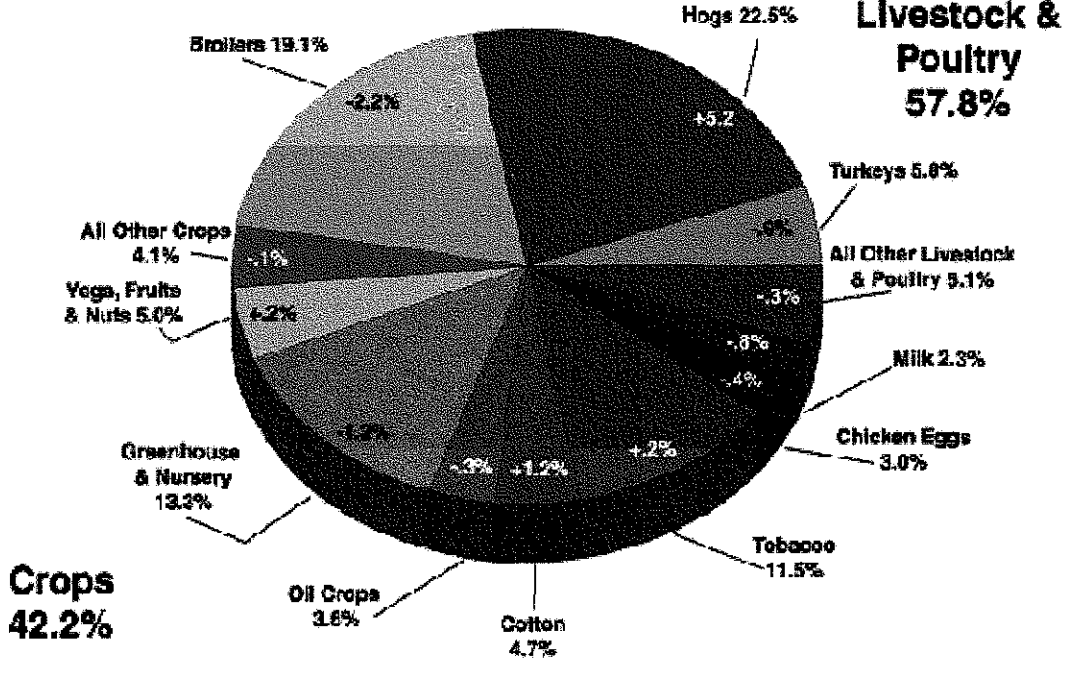
Declining Percentage of U.S. Tobacco Leaf in American-made Cigarettes,
1960-1999



Source: USDA, Economic Research Service, Tobacco Situation & Outlook. 2000 data not yet available.

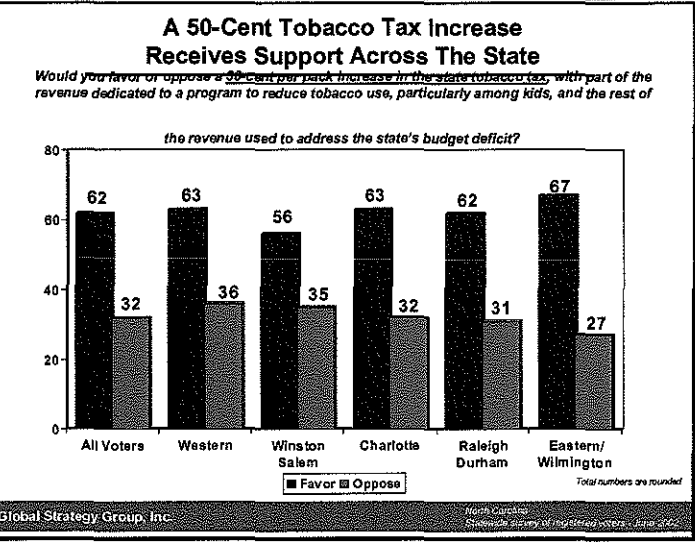
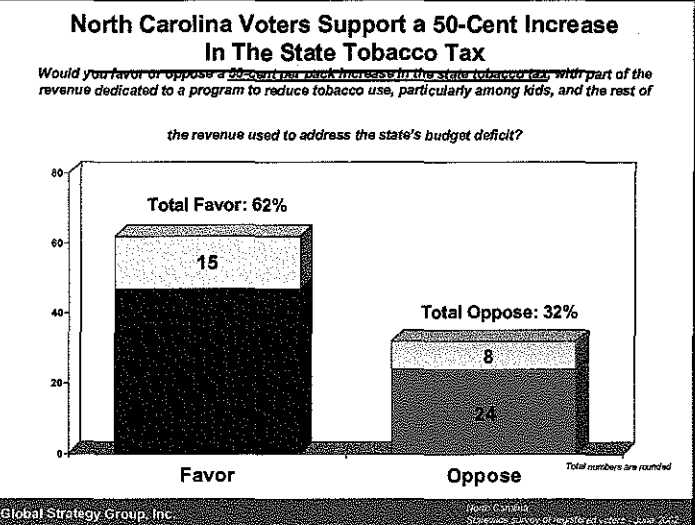
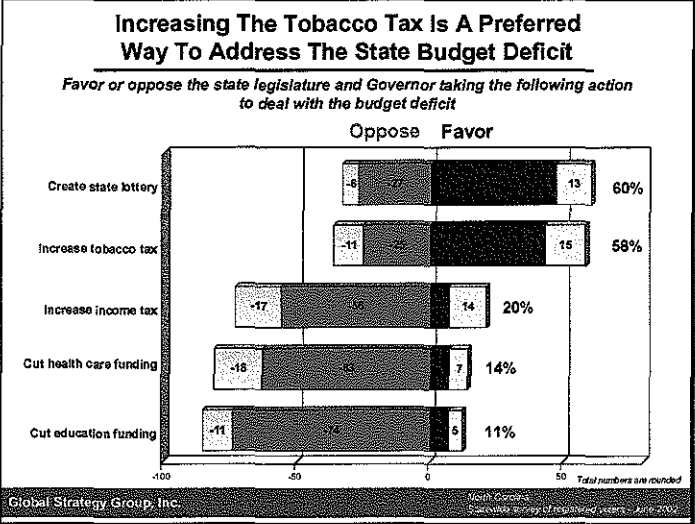
Appendix C

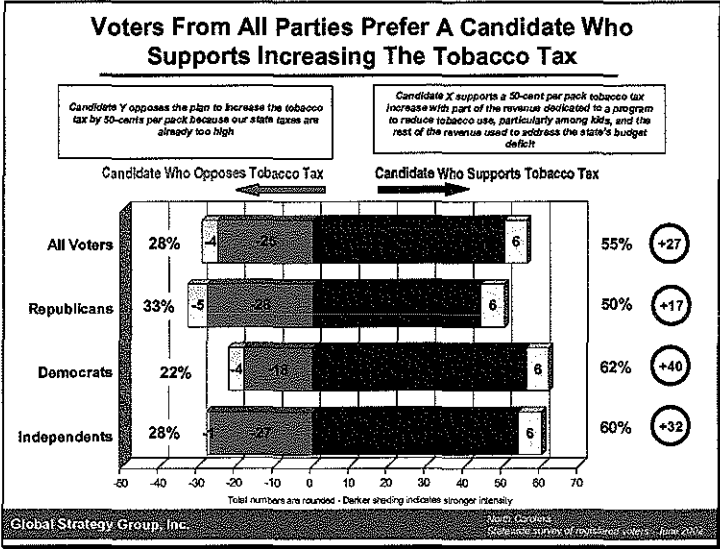
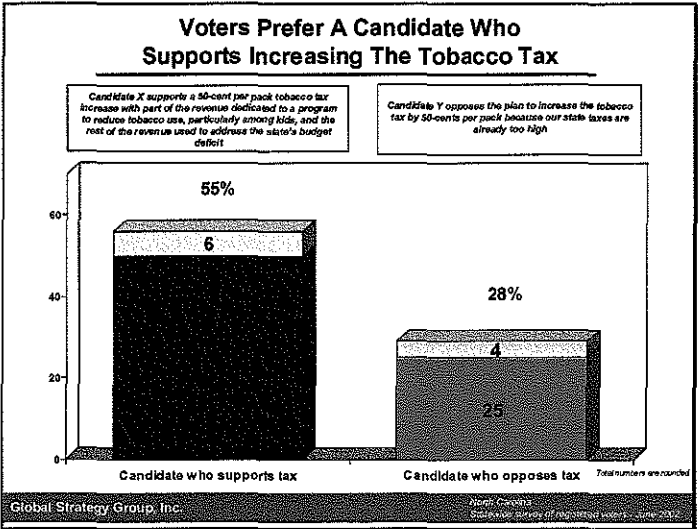
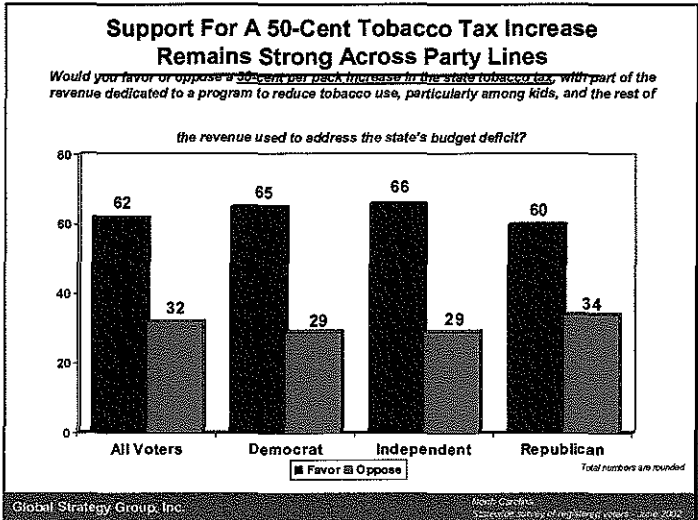
SOURCE OF FARM CASH RECEIPTS, NORTH CAROLINA, 2000
\$7,434,646,000



Source: North Carolina Department of Agriculture and Consumer Services, Agricultural Statistics Division. 2000

Appendix D: Survey of 600 North Carolina Voters: Cigarette Excise Tax





Methodology:
How the poll was conducted

- 600 telephone interviews were conducted with registered, likely North Carolina voters between June 8 and June 11, 2002.
- The margin of error for the survey is $\pm 4\%$.
- The interviews were completed using a CATI (Computer Assisted Telephone Interviewing) system.
- The survey was conducted by Global Strategy Group, Inc.

Global Strategy Group, Inc.

Methodology: About the sample

- **Region (defined by county)**
 - 8% Western; 22% Winston-Salem/Greensboro; 25% Charlotte; 28% Raleigh/Durham/Chapel Hill; 18% Eastern/Wilmington
- **Gender**
 - 52% Female
 - 48% Male
- **Party Identification**
 - 34% Democrat
 - 33% Republican
 - 27% Independent

Global Strategy Group, Inc.

Appendix E

Model Policy for Raising Cigarette Excise Tax in NC

**A BILL TO BE ENTITLED
AN ACT TO RAISE THE EXCISE TAX ON CIGARETTES TO REDUCE AND
PREVENT YOUTH SMOKING AND TO ALLOCATE THE RESULTING TAX
REVENUE TO THE GOLDEN LEAF FOUNDATION*.**

Whereas, North Carolina's excise tax on cigarettes is currently five cents (5¢) a pack, the third lowest in the nation, and

Whereas, the use of tobacco products is the leading cause of preventable death and disease in North Carolina, and

Whereas, the best way to prevent and reduce tobacco use by children is to substantially increase the cost of cigarettes, and

Whereas, North Carolina tobacco farmers have experience declining demand for their crop over the last decade, and

Whereas, declining demand for North Carolina grown tobacco is only marginally affected by declines in North Carolina smoking rates; Now, therefore,
The General Assembly of North Carolina enacts:

SECTION 1. G.S.105-113.5 reads as rewritten:

"§ 105-113.5. Tax on cigarettes.

(a) A tax is levied on the sale or possession for sale in this State, by a distributor, of all cigarettes at the rate of ~~two and one-half mills~~ three and three-quarter cents (3 ¾¢) per individual cigarette.

This tax does not apply to any of the following:

- 1) Sample cigarettes distributed without charge in packages containing five or fewer cigarettes.
- 2) Cigarettes in a package of cigarettes given without charge by the manufacturer of the cigarettes to an employee of the manufacturer who works in a factory where cigarettes are made, if the cigarettes are not taxed by the federal government."

(b) The Secretary shall, on a quarterly basis, credit to the Golden LEAF Foundation in the Office of State Budget and Management the estimated amount of net proceeds of the tax levied under this section during the previous quarter attributable to the additional three and one-half (3 1/2¢) increase in the tax rate enacted in 2003."

**The Golden LEAF Foundation is a non-profit corporation that works to promote the social welfare of NC's citizens and receives and distributes funds for economic impact assistance. Available online at <http://www.goldenleaf.org>.*

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