Steering Tax on Children’s Tobacco Consumption

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Taxing cigarettes smoked by minors reduces the smoking rate of juveniles by up to 100 percent.

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SUMMARY

Careers of smokers almost always start in infancy. Therefore, the tobacco industry is confronted with the economic necessity to turn children into addicted smokers. Present efforts to reduce the smoking rate of children remain without sufficient effect, because they miss to change this incentive. The solution is to tax cigarettes smoked by children. Adequately designed this steering tax causes the industry to prevent children from smoking instead of turning them into addicted smokers.

INITIAL SITUATION

According to WHO-estimates, the products of the cigarette industry have caused the deaths of worldwide 100 million people in the past century. In industrialized countries cigarette consumption is the single most serious health risk and the most frequent cause of premature death. The diseases incurred by cigarette smokers are apoplectic strokes, heart attacks, arteriosclerosis, pneumonia, chronic bronchitis, as well as malignant neoplasms in the oral cavity, larynx, the lungs and the digestive organs. Therefore, one of the main objectives of health politics is the reduction of cigarette consumption. As most smokers are nicotine addicts their efforts to quit often fail. It is therefore essential to prevent the start of smoking careers. As by far, the largest number of lifelong smokers begins smoking before the age of eighteen, and as the health risks are most dangerous for children and adolescents, it is one of the most important tasks of any health policy to protect children and adolescents from taking up a smoking career.

Children and adolescents are taking up smoking at an increasingly early age: In Germany, for example, when they are between 11 and 13 years old. Obviously this trend indicates serious shortcomings in regard to the present measures to protect children and adolescents. Since 80
percent of habitual smokers begin their career as juveniles, the tobacco industry is confronted with the economic necessity to turn children into addicted smokers. And, as the following table for Germany points out, the industry is highly successful seducing them.

### Smoking children and adolescents in Germany in 2004 (1, 2)

<table>
<thead>
<tr>
<th>Age</th>
<th>Girls</th>
<th>Boys</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>12-13</td>
<td>20,507</td>
<td>34,768</td>
<td>55,274</td>
</tr>
<tr>
<td>13-14</td>
<td>36,703</td>
<td>31,617</td>
<td>68,321</td>
</tr>
<tr>
<td>14-15</td>
<td>103,185</td>
<td>73,308</td>
<td>176,493</td>
</tr>
<tr>
<td>15-16</td>
<td>130,578</td>
<td>158,976</td>
<td>289,554</td>
</tr>
<tr>
<td>16-17</td>
<td>148,459</td>
<td>168,101</td>
<td>316,560</td>
</tr>
<tr>
<td>17-18</td>
<td>196,780</td>
<td>241,425</td>
<td>438,204</td>
</tr>
<tr>
<td>Total</td>
<td>636,211</td>
<td>708,195</td>
<td>1,344,406</td>
</tr>
</tbody>
</table>

Over and over again, upcoming generations of juveniles are sought to fill – as replacement smokers – the gap left by the smokers who left the market due to serious diseases and premature deaths. Cigarette companies know only too well that they would have no future if they were not able to maintain a high number of juvenile customers. Each individual adolescent that turns into a habitual smoker represents – calculated on the basis of a lifelong smoking career – a turnover present value of roughly 45,000 dollars. Given the usual profit margins this means a present value of net profits of about 5,100 dollars per smoking adolescent. The enormous profits generated in the cigarette business enable the industry – with the help of advertising campaigns worth billions of dollars – to entice a large amount of young people into habitual cigarette smoking.

The key to the industry’s success in the cigarette business with minors is the insufficient perception of risks and the lack of judgement characteristic of children and adolescents, who thus cannot effectively guard themselves against the seductions of the intricate emotional image
systems used in advertising. The cigarette manufacturers have extensively explored the attitudes, preferences and habits of young people. And from these studies they know that adolescents are more susceptible to the allurements of advertisements, that they underestimate the health risks and repercussions of smoking, whereas, at the same time, they overrate their ability to give it up again.

The decision of juveniles to begin smoking is one of the most expensive decisions in their lifetime. In the USA, for example, the overall private and external costs of one single pack of cigarettes amount to 39.66 USD. This includes effects on social insurance and tax base. In contrast to the consumption of other consumer goods, the majority of smokers regret their decision to start smoking and would like to quit. This decision made in young years is difficult if not impossible to revert due to the highly addictive potential of modern cigarettes, aggravated by many additives. More than 70 percent of smokers want to quit, 40 percent make an attempt to quit and fail 97.5 percent of the time. Children and adolescents do not possess sufficient physical and mental maturity for a decision of such complexity and import.

The enticement of children and adolescents into smoking cigarettes happens via a great number of open, but sometimes also covert and misleading promotional efforts by the industry. On the part of health politics, the attempts that so far have been made to reduce the amount of children and adolescents who smoke, consist of supplying information, advertising restrictions and other ad-hoc interventions in the cigarette market. Counteractive advertising on the part of tobacco industry has so far thwarted all these political efforts to achieve a considerable reduction of business with starters among minors, and has kept the ratio of smokers among children and
adolescents at an irresponsibly high level. As the enormous profits gained by the cigarette companies from enticing minors into smoking have invariably remained untouched, the interventions in the cigarette market which aim at protecting children and adolescents have not been successful. Unless measures are taken which render cigarette smoking by juveniles unprofitable for tobacco dealers, the protection of children and adolescents will remain unattainable political goals.

YOUTH PROTECTION BY MEANS OF TAX LAW

To counter the wrong decisions made at a young age, it is necessary to impose an additional tax on the cigarette industry, which is measured by the number of cigarettes smoked by minors. The tax scale should be sized in a way that the consumption of cigarettes by minors leads to losses for cigarette manufacturers, even in light of the profits arising from lifelong smoking careers. Consequently, the maximum rate of this tax should equal the scientific estimates of the social costs arising from smoking. For an average 25 year-old smoker these costs amount to two dollars per cigarette (3).

The proposed regulation provides extra duties for the cigarettes smoked by minors. The intended charges include smoking of children and juveniles up to the age of 18. The amount of the tax will be calculated on the basis of the quantity of the cigarettes smoked by minors. Moreover, the tax amount is inversely rated to the age of the smoking minor, so that it reflects the eminent damage of early smoking. In the age group of children up 14, it averages at 2 euros (2.60 $) and in the age group of juveniles from 14 years onward 1.90 euros (2.47$) will be charged per cigarette. With
the advancing age of the customer the tax decreases by 0.1 euros (0.13$). Each tobacco supplier will be individually charged for their cigarettes which are being smoked by minors.

To determine the tax debt for each producer, it is necessary to impose the amount of cigarettes smoked by minors in the particular age groups annually. For this purpose, statistical estimation procedures will be applied, the details of which have to be appointed in ordinances by the Federal Ministry of Finances. This is a well known and approved procedure in commercial law and financial administration. Usually this data is already being imposed by the companies for marketing reasons. The additive costs for the data acquisition are therefore not a notable charging for the tax computation.

However, the Federal Ministry of Finances must be appointed to provide drawbacks to the amount of 10 percent from the statistically estimated sum in favour of the debtors. This protects the assessable cigarette providers against wrongful duties arising from the statistical estimation procedure and its inaccuracy. The deduction should also protect the debtor against the fact that despite all reasonable efforts, cigarettes are nevertheless being smoked by children and juveniles. Even though it is the provider’s responsibility to hinder their addictive and disease-causing products from being accessible to children and juveniles, the Federal Ministry of Finances can make deductions concerning the assessed sums to take into account the individual responsibility of children and juveniles and their legal guardians. This allowance combined with the allowance made in regard to the impreciseness may not exceed 10 percent. This accurate appointment of the number of cigarettes smoked by minors per provider charges them fairly according to the input
involved and induces the crucial economic incentive to prevent children and juveniles from smoking.

This tax will charge the tobacco industry for being the initiators of the non-desirable results of the consumption of their products by children and adolescents. The current practice leads to high profits for the cigarette industry, whereas costs for limiting the health damages of juveniles are shifted to private and public institutions. This inconsistent share of responsibilities would be rectified by the suggested tax. All at once, both the open and concealed measures of the cigarette industry to seduce minors into starting smoking will become economically senseless. For the first time, this duty leads to a serious alignment of interests of the cigarette industry, parents, schools and health institutions. The current regulation aims to reduce smoking by selective, partially effective restrictions on the marketing activities of the cigarette manufacturers. This method, however, has no effect on the industry’s existing incentives to seduce children and juveniles into smoking. In opposition to this, the intended tax yields a direct economic interest for the cigarette industry to achieve a low smoking rate of minors. Avoiding the intent to establish a lower smoking rate of juveniles through particular sales efforts will result in economic losses for the cigarette suppliers due to the extra duties.

The decline of cigarette consumption through the proposed regulation not only leads to an immediate health improvement for children and juveniles, it also yields additional tax receipts which, however, will descent rapidly due to the instant – and for the first time effective – efforts of the cigarette industry to prevent children and juveniles from smoking.
DISCUSSIONS AND FORECASTS

Based on the present statistics of juvenile smokers, the tobacco industry in Germany would have to pay additional taxes of 6.2 billion € (8.06 billion $). Nevertheless, the duty’s aim is not an increase of the tax base, but rather a substantial decrease in smoking rates of children and adolescents. The profits of the tobacco manufacturers – made by turning children and adolescents into addictive smokers – will be sapped by the additional tax. Instead of having the incentive to increase the volume of cigarettes smoked by juveniles, the tax ensures that the cigarette providers have an incentive to decrease it. For the first time, it would not be a profit but a loss for the cigarette industry to seduce children into smoking. To avoid this tax, the tobacco firms would henceforth counteract cigarettes being smoked by children as effectively as they encourage it until now. The result would be a nearly complete reduction in the rate of smoking minors (4). This tax makes other regulations superfluous and yields an unexcelled protection of minors: It turns the tobacco industry and its mighty advertising systems from seducing children to preventing them smoking.

Footnotes

1. Deutsches Krebsforschungszentrum, 2007, Stabsstelle Krebsprävention, Heidelberg. (German Cancer Research Center, Staff Position Cancer Prevention)


4. In equilibrium, there would not be a market for selling cigarettes to children and juveniles at all. The tax burden of $2.50 per cigarette would be higher than any profit possibly gained by inducing minors to smoke. However, there might be some minors who smoke for reasons manufacturers of cigarette are unable to control, or there might remain a black market.

References and further reading