

When 70 Percent Of Cigarette Cost Is Tax, How Can They Be Cheaper Than E-Cigarettes?

By ACSH Staff — May 9, 2016



[1] E-cigarettes via [Shutterstock](#) [2]

Cigarettes are expensive. One truism of economics is that if you raise prices, demand will adjust accordingly, so while an ad for Nellie's "free-range" eggs may show a few chickens in a pasture, **(1)** if that were anything but marketing hoopie those eggs would need to cost \$400 each and no one would buy them.

For that reason, government has sought to control demand by raising the price of cigarettes using taxes. The idea is that higher cost will reduce smoking, and government will get some money. Has it worked? Government sure seems to think so, as proof they point to the lower smoking rate. **(2)** Still, the knob can be turned too far. [New York City has the most expensive cigarettes in the United States and also the largest black market](#) [3], tax revenue has actually gone down as taxes rose.

If we really want people to stop smoking, the worst idea imaginable is to raise costs on things that are alternatives to smoking. Yet the role of government is primarily to gather wealth and redistribute it based on political goals so higher taxes are the trend.

E-cigarettes are a growing fad that started off primarily as harm reduction or smoking cessation for cigarette users. They contain a diluted nicotine vapor rather than the carcinogens in cigarette smoke so they should be healthier and cost less, since cigarettes are so highly taxed.

Or not.

[An analysis](#) [4] headed by Alex Liber of the American Cancer Society and the University of Michigan School of Public Health found that in all but one of 45 countries cigarettes cost less than e-cigarettes, even though the latter are not taxed as much. They looked at the two major types of e-cigarettes: no refill and refillable. At \$5.00, the average tobacco cigarette pack cost just over half disposable e-cigarettes (\$8.50) while rechargeable e-cigarettes were \$20. Refills cost just \$2 less than a pack of cigarettes.

Some of that is the miracle of economics. E-cigarettes are a tiny market, [a fraction of the 1% of cigarettes that make up the tobacco alternatives market](#)

[5]. Yet it defies claims that e-cigarettes might be dangerous because they cost less due to lower taxes.

The [Centers for Disease Control](#) [6] estimate that cigarettes take roughly 480,000 U.S. lives each year. In order to reduce this death toll, and to raise more money, many states have listened to [studies](#) [7] and placed huge tax increases on cigarettes; cigarette excise taxes have gone up [over 120 times](#) [8] in the past 13 years. Economies of scale mean that even with high taxes - [70 percent of the cost of cigarettes is tax](#) [5] - they can be cheaper than alternatives.

After the recent FDA ruling on the substantial equivalence date for nicotine vapor devices, advocacy groups have scrambled from claims [that more taxes would narrow the options for cigarette users looking to quit](#) [9] (which was not convincing to FDA, since e-cigarettes are not marketed as smoking cessation devices the way gums and patches, which passed FDA approval, are) to claims their products will be taken over by large companies who can afford the regulatory burden.

Some groups have taken the opposite tack of the U.S. [Public Health England](#) [10] found that vapor products have a 95 percent lesser health risk than cigarettes and as a result, the United Kingdom increased its average tobacco cigarette pack price to \$14 (U.S) to achieve an artificial price parity with e-cigarettes (and get more tax revenue).

NOTES:

(1) Free-range is ridiculous, and this guy selling the perception these are the eggs you are buying is even more so.



(2) History says otherwise. [Mexico raised taxes on soda and sales went up](#) [11]. More likely cigarette smoking has gone down because we have educated the public about harm. Anti-smoking PSAs did not do it, since that \$25 billion settlement that mandated PSAs has simply created an industry that now does not want to be out of business.

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[2] <http://www.shutterstock.com>

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[4] <http://tobaccocontrol.bmj.com/content/early/2016/03/16/tobaccocontrol-2015-052874.short?source=acsh.org>

[5] <http://acsh.org/news/2016/03/28/1-of-a-900-billion-market-has-health-officials-baffled/>

[6] <http://www.cdc.gov/tobacco/campaign/tips/resources/data/cigarette-smoking-in-united-states.html>

[7] <http://www.nber.org/papers/w18326>

[8] <http://www.forbes.com/sites/patrickgleason/2015/01/29/ecigtaxhikes/#19fb325156c2>

[9] <http://taxfoundation.org/article/vapor-products-and-tax-policy>

[10] <https://www.gov.uk/government/news/e-cigarettes-around-95-less-harmful-than-tobacco-estimates-landmark-review>

[11] <http://acsh.org/news/2016/05/05/war-on-fun-fail-after-tax-soda-sales-rise-in-mexico/>