

The Political Economy of the Tobacco Industry

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The purpose of this paper is to examine the politics and economics of one of our country's most profitable and influential cash crops: tobacco. Toward this end, one would apply elements of the theory of public choice to the analysis of political decision-making. The public choice model will be used to illustrate the legislative decision-making process as applied to the tobacco industry. Underlying the analysis is the rational assumption that powerful interest groups, such as tobacco, can influence the political sector in ways that benefit its industry.

While tobacco provides numerous benefits to the economy in the form of revenues and profits, taxes, and the creation of jobs, the consumption of tobacco leads to numerous health difficulties. It has been repeatedly linked with many productivity-inhibiting diseases, as well as the premature death of its consumers. Health statistics have linked general tobacco use with 3 million worldwide deaths yearly. Accounting for nearly 20 percent of all cancer-related deaths, tobacco is known as the leading cause of preventable death and disease (<http://www.boutellrom/infact/health.html>, 1996). The theory of public choice helps to explain why, over a long period of time and until very recently, tobacco related costs have been given far less emphasis than related benefits.

I. Public Choice and the Tobacco Industry

The public choice model assumes that individuals are not only rationally self-interested in private markets, but they are equally rationally self-interested in the public sector (Johnson, 1991; 11). According to public choice theory, elected government officials will generally allow their need for re-election to influence the decisions they make on behalf of, and for the supposed benefit of their general constituencies. A democratic representative system is, by its nature,

subject to manipulation by special interest groups. A given interest group has much more to gain or lose when proposed legislation affects it, while individuals in the general public are subject to only a very small associated cost or benefit. Because the stakes are high, interest groups will be rationally informed and active in such instances, providing campaign contributions, blocking of votes and spending large sums on lobbying efforts. Conversely, the general constituency will be rationally ignorant and relatively passive with respect to the special interest issue because the costs of being informed and active are much greater than any expected benefit. The general constituency remains rationally ignorant. In other words, interest groups, with the most to gain or lose through legislation, stay on top of pending issues and continually seek to influence policy makers. Voters, whose day-to-day lives are only marginally effected by a given policy result, remain ignorant and provide little opposition with respect to most special interest issues (Johnson, 1991).

Another public choice concept which helps to explain the endurance of tobacco in the face of large health related costs is the “shortsightedness” effect. According to the shortsightedness effect, policy makers are likely to provide political support for policy outcomes that have “immediate and easily identifiable benefits” with “obscure long-run costs” as their downside (Durdan, 1998). Since tobacco provides large current economic benefits, political systems are reluctant to impose immediate regulatory and other costs on the industry. Although costs may be greater in sum than benefits, the related costs occur only in the future and will have little or no effect on present politicians (and bureaucracies).

The public choice model, given that politicians are driven by rational self interest, becomes increasingly important as we try to unravel the interactions between the tobacco industry and elected government representatives. As legislators weigh the costs and benefits of

tobacco-related votes and other forms of political support, the question to them becomes, “Net of other influences, how will my position on this issue affect my political health and survival?” For many legislators the answer will clearly favor tobacco at the expense of their general, rationally ignorant and passive constituencies (and individuals outside their constituencies) since the industry is one of the most politically active and powerful.

II. Economic Benefits

The positive economic impact of tobacco on the economy is great and cannot be overlooked. Tobacco produces large revenues, through both profits and taxes, and creates a wealth of job opportunities in the United States. According to the Tobacco Institute (1995; pages 2-5), in 1994 tobacco was grown on 124,270 farms in 23 states, making it the seventh largest cash crop in the country. The tobacco crop finished the year with an estimated value of \$2.7 billion, which represents 2.9 percent of the total value for all cash crops and farm commodities. The states of North Carolina, Kentucky, Tennessee, South Carolina, Virginia, and Georgia each brought in over \$100 million in cash receipts from tobacco in 1994.

Nearly 43,000 people were employed in some aspect of tobacco manufacturing in 1993.

Tobacco production and sales brought in nearly \$15 billion in tax receipts for federal, state, and local governments. Approximately 31 percent of the tax receipts from domestic retail sales of tobacco went to the United States government. A Price Waterhouse analysis of the U.S. industry’s impact estimated that tobacco production generated \$51.5 billion of the U.S. Gross National Product (GNP), employing 681,353 persons along the way (Tobacco Institute, 1995; 3-5).

III. Health-Related Effects of Tobacco Use

The health risks associated with continued use of tobacco are large both in number and in

magnitude. Since 1964 the U.S. Surgeon General has repeatedly identified cigarette smoking as the “most important source of preventable morbidity and premature mortality” in America. The World Health Organization and the U.S. Public Health Service have both recognized tobacco use as a “serious” drug problem (<http://www.boutellrom/infact/health.html>, 1996). In 1990, approximately 418,690 deaths in the U.S. were attributed to smoking (Bartecchi, MacKenzie, and Schrier, 1994; 907). This figure represents twice as many people as will die yearly from automobile accidents, AIDS, airplane crashes, alcohol-related accidents, fire, murder, suicide, and narcotics combined (Stebbins, 1991; 1318). To say that tobacco is an incredibly dangerous killer would be an understatement.

The three ailments that smoking is most commonly associated with are cardiovascular disease, cancer, and chronic obstructive lung disease. Smoking greatly increases the risk of all cardiovascular diseases, most notably stroke and heart attack. Approximately 43 percent of the 1990 smoke-related deaths were caused by cardiovascular disease. Additionally, smoking directly leads to over 85 percent of all lung cancers, as well as cancers of the mouth, larynx, esophagus, and stomach. About 30 percent of all deaths from cancer can be attributed to smoking. Former Surgeon General Dr. C. Everett Koop stated that cigarette smoking is “undoubtedly the most important preventable cause of cancer in the United States today” (Bartecchi, MacKenzie, and Schrier, 1994; 907-908). Smoking is the leading cause of lung diseases like bronchitis, emphysema, and chronic airway obstruction. Cigarette smoking leads to inflammation of the lower airways and decreases the pulmonary functions in normally healthy lungs. In 1990, these diseases caused 84,475 deaths in the U.S. (Bartecchi, MacKenzie, and Schrier, 1994; 910).

IV. Other Costs of Tobacco Use

Not only are there direct adverse health effects associated with smoking, but extensive economic repercussions also exist. The illnesses caused by smoking must be treated and these treatments are costly. It is here that we begin to see some of the costs of smoking imposed onto third parties, in which an ethical consideration toward the economics of the tobacco industry must be made. We must decide if the benefits that this industry provides our society are greater than the costs we incur, as well as who should ultimately pay these costs.

The aggregate medical expenses associated with the treatment of tobacco-related illnesses totaled \$22 billion in 1985, or approximately 70 cents per pack of cigarettes sold. A substantial piece of the cost was financed by third-party payment plans, either in the form of private insurance or tax-funded programs like Medicare or Medicaid. Third-party payment plans now pay for roughly 90 percent of all hospital patient bills and more than 50 percent of physicians bills, thus creating a “network of transfers,” which makes it more likely that some of the costs of smoking are being incurred by nonsmokers. A prime example of this occurs when the insurance companies pay for smoke-related hospital stays. Their premiums invariably rise for all of their customers, smokers and nonsmokers alike (Tollison and Wagner, 1988; 44-48).

The advent of the Environmental Tobacco Smoke (ETS) phenomenon provides a second example of a smoke-related cost being borne by nonsmokers. ETS is not only dangerous to the health of nonsmokers, but in a purely economic sense it is costly because it requires clean air legislation. The clean air acts that are routinely being passed by local governments can cost the government itself by the enacting of the regulation, and also costs the businesses and individuals affected. Businesses forced to restrict smoking may lose revenue to fast food restaurants and grocery stores. For instance, bars in Maryland will be completely smoke-free by the year 2002, causing bar owners to worry that their customers may move their money into bars in bordering

states where smoking is permitted.

Restaurant owners will also be stricken with the responsibility of physically altering the structure of their establishments should they choose to designate a special “smoking” section of seats. Smoking restrictions in the workplace may also lead to friction between smoking and non-smoking coworkers. Lowered worker morale and increased hostilities could easily lead to decreased productivity.

There are also a number of expenses that will show up in the workplace and can be lumped together as general opportunity costs. The lost production, absenteeism, and wages lost due to smoke-related illnesses are all opportunity costs of smoking. For smokers, the expected benefits they derive from smoking must be at least equal to, if not greater than, these expected costs plus the basic monetary cost of keeping up a smoking habit. Once again, the question comes up as to how these costs affect consumers other than those who choose to smoke cigarettes.

The 1985 “best estimate” of the cost of lost production due to routine absences, extended illnesses, and premature mortality (using the assumption that the average worker will continue to work until the age of 65) comes to \$36 billion, or more than one dollar per pack sold. The rate of absenteeism among smoking men is nearly 60 percent higher than that of non-smoking men. Smoking women missed work 45 percent more often than their non-smoking counterparts (Tollison and Wagner, 1988; 19-31).

Upon first glance it would still appear that these statistics only reflect costs borne by the smokers themselves. Suppose, however, that the amount of a certain firm’s employee benefits is dictated by aggregate production figures, or even aggregate attendance statistics. If the smoking portion of the employee force has been out of work repeatedly, it is safe to assume that other

employees could be punished unfairly at the end of the year. Also, decreased production will undoubtedly affect the profitability (and consequently the paychecks) of the entire company, smokers and nonsmokers alike. Suppose there is a one-income family that is supported solely by a working smoker. If he or she gets sick and requires an extended hospital stay, financial questions may be of secondary importance initially, but at some point others will be affected by this smoke-caused loss (of income, if not of life). Again, an ethical question concerning the opportunity costs must be answered because these costs, in many cases, are externalized, while the benefits that the smokers receive remain internal (Tollison and Wagner, 1988; 44-48).

Shortsightedness and special interest effects help special interest groups effectively focus on immediate benefits, while allowing future costs to reveal themselves as they will. Because they are rationally informed and politically active, the tobacco industry donated \$2.3 million to Congressional candidates in the 1991-92 election cycle. Of all corporate donors, Phillip Morris and RJR Nabisco were two of the top seven contributing the most money. The industry also donated \$2.5 million to both major political parties in the same election cycle. Three of the five corporate donors contributing \$100,000 or more to both parties were Phillip Morris, RJR Nabisco, and the Tobacco Institute (the industry's own lobbying organization) (<http://www.boutellrom/infact/health.html>, 1996).

V. Politics of the Tobacco Industry - Nationwide and Beyond

Worldwide consumption of cigarettes has increased by 10 percent in the past five years, despite a nearly 27 percent decrease in U.S. cigarette sales (Stebbins, 1991; 1319). This can be attributed to the expansion of the tobacco market throughout the world, particularly in underdeveloped Third World countries. Underdeveloped countries have been increasing their cigarette consumption by two to three percent per year, and now account for 15 percent of all

tobacco revenues (Stebbins, 1991; 1320).

This situation also shows that the politics of this international expansion and the methods used by the tobacco industry have often been suspect. In many cases the U.S. government has given the tobacco industry preferential treatment in order to get its product into formerly uncharted territory. Take for instance the “Food for Peace” program initiated by the U.S. government. To the unknowing outsider this seems like a humanitarian effort to decrease world hunger, but in actuality this program works extensively at developing new markets for American agricultural products. By 1980 almost \$1 billion worth of tobacco exports had been financed, mostly into southeast Asia. Moreover, this does not seem to be an isolated incident, as the government apparently regularly includes tobacco in international development programs - programs now laden with serious political and economic implications for both the donor and recipient countries (Stebbins, 1991; 1318, 1320).

The methods the tobacco industry uses to increase its overseas sales play on the lack of public knowledge about smoking and the lack of financial mobility in these countries. Their marketing campaigns, heavy on advertising, deny any health evidence contrary to industry propaganda, and often through heavy sponsorship try to make potential consumers feel a sense of obligation toward tobacco. By increasing its sponsorships in a certain country, the tobacco industry builds up an image of wholesomeness and helpfulness, while the consumers - now at least partially financially dependent on the industry - may feel an obligation to consume tobacco products (MacKay, 1994; 535).

Tobacco can also take advantage of the financial difficulties in the country or area at hand. For example, the advertising budget dictated by the tobacco industry for Brazil exceeds that country’s national budget for health research (Barry, 1991; 917). One must then ask: By

whom are the Brazilian people going to be most influenced - the tobacco industry with its elaborate ad campaigns, or the struggling health council warning that smoking is bad for them?

A situation in China also lends itself to these types of maneuvers. Multinational tobacco companies have entered China, utilizing inexpensive labor to produce cigarettes for export, while building a sense of belonging to enhance their prospects for future sales in China. Subsequently, Chinese cigarette consumption is growing by nine percent a year (Stebbins, 1991; 1320).

The problem in these situations again is that tobacco companies are profiting greatly at the native peoples' expense. More specifically, they are profiting from selling tobacco to underprivileged people with very little, if any, background information on the potential consequences of tobacco use. The land used for tobacco production and the amount of money spent on tobacco reduces the amount of land available for food crops and the amount of money available to buy food. Another opportunity cost to note is that the manufacturing process requires curing of the tobacco - a process that uses large amounts of wood in areas where deforestation is already a major problem. Finally, and possibly most seriously, the people of these countries are being drawn into addiction through mass marketing without knowing the seriousness of cigarette smoking (Stebbins, 1991; 1321).

The question can then be raised, "Why not simply ban international cigarette advertising?" This would certainly help counteract the worldwide trend of increased smoking. This would also presuppose the existence of a rift between the tobacco industry and the U.S. government - a rift that currently does not exist. Asbestos and DDT advertising have both been banned by the government to protect public health. Why not at least ban tobacco advertising? The answer, among other factors, has to do with our international trade deficit. If advertising were banned, our tobacco exports would decrease, and the deficit would only stand to increase

(Stebbins, 1991; 1323).

The general medical consensus today is that smoking is very dangerous to human health. However, the tobacco industry traditionally has denied these findings. In 1954 the industry founded the Council for Tobacco Research (CTR), presumably to produce research data that would prove beneficial to their industry. When asked to “indicate the degree to which you believe the scientific evidence (for human health problems) suggests a casual relationship with cigarette smoking,” nearly all CTR scientists rated the relationship “strong or moderate.” Even after funding the research group that produced these findings, the tobacco industry does not accept their opinions (Cummings, Sciandra, Gingrass, 1991; 894).

A prime example of special interest influence upon legislative bodies could be seen in California during the late 1980s. In 1988, California voters passed Proposition 99, which added 25 cents to the per-pack tobacco tax. Twenty percent of the new revenues were specified by voters to go toward community and school-based tobacco education and prevention programs. While that specification was made by the voters, the implementation of the Proposition was still up to the California state government. After Proposition 99 was passed, however, tobacco industry political spending increased tenfold. As a result, only 14.7 percent of Proposition 99's revenues went to tobacco education (Begay, Traynor, and Glantz, 1993; 1214-1216). The tobacco industry had successfully lobbied the California government to enact the legislation in a way that would benefit them.

Coincidentally, the single most powerful member of the California legislature, the Speaker of the Assembly, received \$221,367 in contributions from the tobacco industry between 1991 and 1992, making him the largest legislative recipient of tobacco industry contributions in the U.S. This same Speaker of the Assembly, Willie Brown, met in 1991 with Philip Morris

officials to discuss passing pro-tobacco legislation by disguising it to voters as anti-tobacco measures (Begay, Traynor, and Glantz, 1993; 1214-1216).

VI. Conclusions and Recommendations

In conclusion, it is obvious that the tobacco industry provides a large number of jobs as well as considerable revenues. By the same token, it imposes great costs, many of them external, both in the U.S. and abroad. This issue can be simplified to the most basic of economic questions, one that has been repeated throughout this paper: Given the economic benefits of tobacco, what are its costs, and who is to pay them? By nature, economic thought and analyses like this are based on the “rationality concept” – a theory by which decisions are made through an organized thought process weighing the positive factors versus the negative ones. The high costs to third parties, the addictive nature of tobacco and its health implications, and its questionable role in political and government processes suggests that the indirect costs in health care may outweigh the economic benefits of the tobacco industry.

The underhanded political methods used by the tobacco industry such as special government treatment and the imposition of third-party productivity costs are all costs of consumption that have been overlooked to an extent and could be dealt with through regulation. The human cost is the determining factor that cannot be changed. Tobacco’s health implications will continue to effect the United States, as well as contribute to sickness and premature death.

It is not likely that tobacco will ever vanish from the consumer market completely. It is too ingrained into lives and livelihoods, and people are still ultimately free to smoke at least in the privacy of their own homes. What we can do is explore alternatives. Here another aspect of the shortsightedness effect enters into the equation. Long-term gain has been too often overlooked and ignored because of short-term loss. As a case in point, smoke-related deaths

generally occur only after 20 years of accumulated damage (Stebbins, 1991; 1318). As painful as it may be, this effect has to be reversed. Using the public choice model again, long-term gains through short-term pains have to become more realistic and ultimately more appealing for voters and legislators to consider them. There are alternative ways to make money and employ people. Not every country in the world lives off of tobacco to the extent that the United States does. First, there must exist an initiative to seek out and explore alternative crops and money-makers. Second, that initiative must be acted upon, through education and mass advertising campaigns, eventually leading to legislation. Pro-tobacco propaganda must be equaled, if not exceeded, by pro-education propaganda.

Finally, in recent months, many states have agreed to a settlement plan in which the tobacco industry will pay a total of \$268.5 billion over the next 25 years (actually \$195.5 billion in present discounted value) toward the health care costs of tobacco use (American Cancer Society, 1999; 2). Future research in the area should focus on the nature and terms of the agreement, and in particular, whether the funds available will prove sufficient to offset known and expected costs of tobacco use. Significant disagreements and criticisms of the settlement are already surfacing. The American Cancer Society sees it as severely flawed because it does not provide proper regulatory tools and does not allow specific access to industry information (American Cancer Society, 1999; 1-14). Some see the whole enterprise as an unwarranted breach of commercial and personal freedoms (Cato Institute, 1999; 1-3). No doubt the controversy will provide grist for much scholarly investigation.

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