

ASH Paper 4

August 1998



Job losses in the tobacco industry: the impact of tobacco policies

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"If the industry would vanish tomorrow, most would find alternative work"

Walker Merryman, US Tobacco Institute Vice President. Quoted in City Newspaper, Rochester, New York, October 16, 1986

1. Summary

- The tobacco industry claims that tobacco control initiatives will cost jobs and that is a further reason why Government action to tackle the widespread disease and addiction caused by tobacco should be limited.
- The acceptance that tobacco policies will reduce consumption and output is a welcome validation of the effectiveness of tobacco policies. For each job in the tobacco industry, nine lives are lost each year. For each person-year of employment in tobacco there are 140 person-year of life lost through smoking related disease in the UK.
- Most jobs in tobacco manufacturing over the last twenty years have been lost through increased productivity (automation) rather than through reduced volume. One survey suggests 82% of job losses have resulted from factors other than volume.
- Money no longer spent on tobacco products does not disappear from the economy but is spent on other goods and services which creates new jobs outside tobacco. Surveys show that more jobs are created than lost because money not spent on tobacco is spent on more labour-intensive products and services. One survey indicates that a 40% reduction in tobacco consumption would create 150,000 jobs in the UK.
- The threat to retail jobs posed by smuggling is greatly exaggerated - though there may be localised problems. Corner shops face stiff competition from duty free outlets, supermarkets and petrol stations for the sale of cigarettes - it is these outlets that pose the greatest threat to employment in corner shops.
- It is likely that tobacco manufacturing employment gains from smuggling as smuggled cigarettes are manufactured and sold at a low price.
- The tobacco industry suggests the 'disorderly market' that will follow and advertising ban will cause problems for public health. The dismantling of the tobacco price-taking cartel means the reverse is more likely. The main casualty of the disorderly market will be the tobacco companies' profits.
- Structural change leading to reduced employment has been a feature of many industries since the war. Employment in coal has fallen from over 700,000 in 1947 to less than 10,000 today. If tackling the epidemic of disease and addiction caused by

tobacco eventually means the loss of jobs, then we should accept that the benefits far outweigh the costs.

2. The Tobacco Industry's position

The UN's Food and Agriculture Organisation estimates that over the past twenty years tobacco consumption around the world has increased by over 50%.¹ The WHO estimates that without significant tobacco control intervention the number of smokers will rise from 1.1 billion to 1.6 billion over the next twenty years. Such a dramatic increase could lead to the assumption that employment within this thriving global industry would also increase. The tobacco industry argues that it is a major employer and cites job creation as a justification for its expansionist policy around the world.² Not surprisingly, the tobacco industry also argues that jobs will be lost as a result of tobacco control legislation. The industry also claims that a ban on tobacco advertising will result in a "disorderly market", i.e. that consumers will switch to cheaper own-brands or buy smuggled cigarettes once premium-priced cigarettes are no longer advertised. This, they claim, will also result in job-losses in the UK.

The industry claims to be an important global economic actor, but the World Bank calculates that the world tobacco market produces an annual global loss of US\$200 billion. It is an economic burden, not a wealth creator.³

3. Industry employment trends

In the western world, where smoking has generally been declining for at least 20 years, employment in the tobacco industry has been falling. However, this owes more to efficiencies in production than to the overall decline in consumption.

United Kingdom. In the UK, the tobacco industry has been steadily reducing its workforce over the past four decades, largely as a result of mechanisation and rationalisation.⁴ One study found that of the 19,400 jobs lost between 1963 and 1985, 16,000 (82%) could be attributed to general factors such as productivity improvements.⁵ In 1971, around 34,000 people were employed in the industry, falling to 8,000 in 1993.⁶ According to the latest official estimates, in 1996, 6,000 people were employed in the manufacturing of tobacco, with a further 7,100 employed in the wholesale and retail sale of tobacco products.⁷ Thus roughly nine people die as a result of smoking each year for each person employed in the industry.⁸ This contrasts with the Tobacco Manufacturers Association's claim that the industry employs 9,500 and supports some 77,500 "full-time equivalent jobs" in the retailing, distribution and supplier industries.⁹

International. In developing countries, where tobacco consumption is rising on average by around 2% per annum, it would be reasonable to assume that employment within the tobacco industry would also rise. However, this is not the case. In eastern Europe, the large multi-national tobacco companies have embarked on a programme of rationalisation since taking over many of the former state-owned companies. In Poland, for example, employment in both production and manufacturing has fallen dramatically since the western tobacco companies started investing in the country. There are approximately 40,000 tobacco farmers in the country today, compared to twice that figure in 1990. This is because the multi-nationals buy tobacco from around the world whereas the former state-owned factories relied on domestically grown tobacco. Much of the new investment has been spent on new machinery which has made thousands of tobacco workers redundant. For example, a Reemstma factory near Poznan will employ only about half the previous 2200 workforce while Philip Morris is cutting jobs at its factory near Krakow.¹⁰

Industry rationalisation. The need for rationalisation has been publicly acknowledged by the industry. At a recent tobacco industry conference, the chief executive officer of Rothmans International, Bill Ryan, referred to over capacity as "a cancer that is capable of sucking the

lifeblood of the industry and potentially a major impediment to our continuing prosperity". He went on to say that reducing over capacity was "a painful, difficult and sensitive task, with serious implications for employment, but, if properly managed it could in time provide great benefit"¹¹. Although not stated, the "benefit" presumably refers to that of shareholders, rather than to those employed in the industry.

4. Tobacco industry case studies

Several studies commissioned by the tobacco industry have made claims about the economic importance of tobacco and have suggested that jobs would be lost following the implementation of tobacco control measures such as increases in tobacco taxation. A study in the US by Price Waterhouse concluded that 2.3 million Americans were dependent on the tobacco industry for their employment and the Tobacco Institute estimated that a \$2-per-pack tax increase would result in 776,000 people losing their jobs. A critique of these calculations found that the figures for both employment and job losses were grossly exaggerated.¹² The critique drew attention to the following points which are also common to other industry reports:

- The industry study implies that the retail and supplier jobs are totally dependent on tobacco whereas relatively few are devoted to tobacco on a full-time basis.
- The report assumes that money not spent on tobacco will disappear from the economy when, in reality, the money not spent on tobacco is redirected to other goods and services.
- The industry fails to take into account the negative impact of tobacco, i.e. productivity lost through smoking-induced illness and premature death.
- Alternatives to tobacco are not taken into account. Consumers who no longer smoke will choose other goods, while retailers and suppliers will adjust to falling demand by switching to other goods or services.
- The industry fails to take into account pre-existing employment trends when calculating the effect of tobacco control measures.
- Tobacco exports offset falls in domestic consumption so that overall production levels are not significantly changed. In the US, about 30 per cent of all cigarettes manufactured are exported while in the UK, the proportion is almost double that of the US at 58 per cent.^{13,14}

A recent study, funded by Philip Morris, examined the economic importance of businesses which are partially dependent on the custom of people employed in manufacturing suppliers to the British tobacco industry.¹⁵ The study, apparently undertaken from the United States, suggested that the introduction of tobacco control legislation would put at risk the livelihoods of people employed in these local businesses. The implication was that such businesses were *totally dependent* on the tobacco industry via its suppliers. However, no calculations were included in the study to show on what basis these assumptions had been made and the anecdotal evidence supplied was highly unconvincing. No attempt was made to assess the impact of a switch in consumers expenditure or whether the local areas in which tobacco sites are located have labour shortages or surpluses in the skills potentially available from redundant tobacco employees.

Other studies in the US have shown that the tobacco industry's claims about jobs are ill-founded. One study compared the economies of eight non-tobacco producing states with the economy of the Southeast tobacco region to see if there would be significant changes in employment following reductions in expenditure on tobacco. The study found that, contrary to tobacco industry claims, reductions in expenditure on tobacco would boost employment in all of the 8 non-tobacco producing states and would not diminish employment in the Southeast region by as much as the industry estimates. The authors of the study concluded that the primary concern about tobacco should be the enormity of its toll on health and not its impact on employment.¹⁶ A similar study for the state of Michigan found that reducing or eliminating tobacco product spending would increase employment in the state, as well as improving health.¹⁷

5. Job creation in non-tobacco industries

An assessment of the economic significance of the UK tobacco industry in terms of employment has shown that a reduction in tobacco consumption will lead to the creation of more jobs.¹⁸ The study compared the actual levels of employment in the UK with the predicted levels of employment when tobacco consumption is reduced by 40%. The study found that smokers who stop are likely to spend a larger proportion of their freed expenditure on recreation, entertainment and education, resulting in an estimated net increase of 155,000 jobs in the leisure and entertainment industries.

6. Effect of specific tobacco legislation

In the US, there have been a number of studies which have assessed the impact of smoke-free laws on the hospitality trade. Contrary to industry assumptions that trade would suffer a downturn following smoking bans (and that ultimately jobs would be lost), studies have shown that overall the effect has been neutral.^{19,20,21} In other words, while some trade may be lost to smokers who no longer frequent smoke-free restaurants and bars, smoking restrictions also attract trade from non-smoking customers.

The tobacco industry asserts that legislation to ban tobacco advertising will adversely affect employment (even though it also argues that such bans have no effect on consumption). The example of Norway shows this to be fallacious argument. The number of employees in the tobacco industry in Norway has dropped continuously both before and after the introduction of the Tobacco Act in 1975 which banned tobacco advertising. The mean annual change was about the same in the two ten-year periods before and after enforcement: 2.7 per cent reduction before and 2.6 per cent after. There is no evidence that the advertising ban had any influence upon employment in Norway.²²

The tobacco industry has also used the issue of jobs to defend its continuing sponsorship of sport. Most notably this view was aired in November 1997 when the Government was considering granting Formula One motor racing an exemption from the EU Directive on tobacco advertising. Press reports suggested that around 50,000 jobs could go if Formula One lost tobacco sponsorship.²³ This was based on the assumption that the motor racing teams would leave the UK and relocate in countries which still permit tobacco sponsorship. However, the figure of 50,000 relates to all of the UK motor sport and related industries, not just Formula One. Furthermore, the motor racing teams are dependent upon the existing automotive economy and relocating to other countries would certainly damage their competitiveness. Finally, it is highly unlikely that alternative sponsors would not be found to replace tobacco money, albeit at possibly a lower level of investment than the tobacco companies currently provide.

7. Impact of smuggling

There are two potential routes by which tobacco control policies may reduce employment in the tobacco industry.

1. The policies reduce overall consumption and, all other things being equal, reduce employment in tobacco growing and manufacturing, and at the margins in the distribution chain. However, redirection of avoided expenditure on tobacco to other goods and services will tend to increase employment.
1. The policies *may* lead to increased smuggling. Increased smuggling has less effect on employment than might be supposed, but its impact is more complicated. Total tobacco sales do not fall and may actually rise as prices in the smuggled market are lower - this may increase volume in the tobacco growing and manufacturing sector and is one reason why some analysts suggest tobacco companies tacitly welcome smuggling. The volume is reduced in the distribution and retailing sector, but

businesses in these sectors sell more than just tobacco, so the economic impact is diluted by the weight of other sales. Only marginal businesses, or those in particular smuggling 'hot-spots' are likely to suffer. Although an illegal distribution chain could reduce employment at the margins in legitimate distribution and retailing, the consumer is still spending the money that enters the private sector economy (though avoiding tobacco duties). This means that any indirect employment consequences are likely to be minor, as the money recirculates from the illegal to the legal economy.

Impact of tax policies on smuggling. Higher taxes on manufactured cigarettes in the UK may induce increased smuggling, but this is far from clear or obvious. Research shows that the highest levels of smuggling in Europe is into the low-cost, low tax countries.²⁴ It is far from clear how or whether changing tobacco control policies do lead to increased smuggling, and how important this effect is compared to the strength of the various disincentives faced by smugglers. The correct approach to assessing the employment implications of smuggling is to examine the impact of plausible tax scenarios that start from the current situation - not some hypothetical, but completely implausible, draconian removal of taxes. We believe the primary factor governing smuggled volume will be the extent to which there are practical difficulties and disincentives to smuggle.

Exaggerated claims. Lobby groups will often cite research suggesting a large reduction in takings associated with smuggling. For example Independent Retail News suggested stores were losing an average of £1,293 per week due to bootlegged sales of alcohol and tobacco.²⁵ This ignores the fact that over 78% of the tobacco takings are tobacco duties - the net revenue loss is one quarter to one fifth of the headline figure. There is also the methodological problem of basing conclusions on reports of losses made by those involved in the industry.

Other pressures on corner shops. The most noisy pressure group supposedly representing the interests of retailers is the Tobacco Alliance - which is actually funded by the TMA. This lobbying front concentrates almost exclusively on the problem of smuggling which they allege is caused by increasing taxes. However, there are many other threats to small retailers - the increasing sales of cigarettes at supermarkets, the growth of petrol station retailing and discounting, and duty free sales.

8. The "disorderly market" and the tobacco cartel

The tobacco industry argues that tobacco policies such as raising taxes and banning advertising will create "market disorder".²⁶ Both measures, it is alleged, will shift the onus on to price competition and this will tend to reduce prices and will lead to a result that health advocates would not wish for. The actual effects are likely to be rather different.

Tobacco pricing. It is true that advertising and promotion are used as the primary vehicle for competition between leading brands. The UK tobacco industry is virtually a duopoly (Gallaher and Imperial Tobacco have almost 80% of the market). Cigarette prices of the premium highly advertised brands are highly clustered (+/- 2p) around the price of the market leader and prices change in step. There is thus clear price-taker behaviour, and a price set by the market leaders. This may involve deliberate and illegal collusion or may be tacit recognition of mutual interest in adopting a strategy that maintains premium prices - it is hard to establish which. These prices are significantly above cost as revealed in the prices charged for budget or supermarket cigarettes. As a general rule, tobacco prices net of tax, have run ahead of inflation and more closely tracked the rise in incomes - this has happened at a time when productivity has risen and unit costs fallen significantly. This could only happen in an oligopolistic market (and probably only in one where the product is addictive).

'Disorder' resulting from banning tobacco advertising. The loss of advertising throws this strategy into jeopardy and tends to make all cigarettes compete on price - an effect that will intensify the longer the advertising ban has been in force. The effect will be to reduce the price of premium brands and reduce the range of prices on the market. Greater convergence

of prices means the incentive to 'trade down' is reduced. Reductions in the average retail price can be offset by more aggressive tax increases. The effect of banning advertising will be to squeeze super-normal profits from the market place, reduce excessive profit margins, reduce trade-down incentives in response to tax rises, and allow the Exchequer to raise duties to ensure prices stay high for public health reasons.

'Disorder' resulting from raising taxes. Taxes have increased very substantially since 1990 - around 5% per year in real terms without precipitating a crisis or creating 'disorder'. The most notable effect has been a rise in the sales of cheaper cigarettes, which suggests the sales-weighted average price has risen by less than the headline tax increases would imply. The Most Popular Price Category cigarette recently switched from being the premium Benson and Hedges brand to cheaper Lambert and Butler brand.

The ASH Papers are funded by the Cancer Research Campaign and Imperial Cancer Research Fund. ASH receives funds from the British Heart Foundation, CRC, ICRF, Department of Health and directly from the public.

The views expressed are those of the authors only.

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