

New Study: The Unhealthy Consequences of Taxing E-Cigarettes

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Taxes on E-cigarettes are leading to more smoking of traditional cigarettes, according to a new study funded by the National Institutes of Health and published this week by the National Bureau of Economic Research.

So far, [21 states](#) and the District of Columbia have imposed taxes on e-cigarettes and Congress is considering enacting a federal tax on e-cigarettes. This comes as their use—*vaping*—has reached an [all-time high](#). However, the latest study on this matter, coauthored by ISFE director Dr. Charles Courtemanche, concludes that taxing these products would not only reduce their use, but it would also increase regular smoking in America by millions of packs per year.

E-cigarettes are electronic devices that heat the liquid they store in “pods”, which usually contain nicotine like regular cigarettes but [fewer harmful](#) chemicals. Health officials are concerned that e-cigarettes are introducing young people to smoking more often than they are helping adults quit. Politicians have responded by implementing taxes on e-cigarettes in a similar way they did in the past with regular cigarettes, to discourage their consumption.

Dr. Courtemanche’s study shows that e-cigarettes are substitutes for regular cigarettes, meaning that users tend to switch between the two products, as opposed to one serving as a gateway to the other. In other words, ***a policy that raises the price of e-cigarettes would increase smoking of regular cigarettes***. In fact, the study finds that ***consumers buy an additional 6.2 packs of regular cigarettes for every standard e-cigarette pod they stop purchasing*** due to higher taxes.

These findings are relevant in the discussion of the “[E-Cigarette Parity Act](#)” introduced in the Senate since it would impose a federal tax on e-cigarette pods based on their nicotine content. The tax would be equivalent to \$1.15 per JUUL pod, one of the most well-known brands of e-cigarettes. This study’s model predicts that imposing ***this tax would reduce e-cigarette sales by approximately 11 million pods per year but at the cost of increasing regular cigarette sales by over 70 million packs.***¹

The study also measured the competitiveness of the e-cigarette industry, finding that most sales come from only a few large companies. This lack of competition results in higher e-cigarette prices and a larger passthrough rate of e-cigarette taxes to prices. Specifically, each new dollar of e-cigarette taxes leads to around a \$1.50 increase in price, which is consistent with economic models of concentrated industries.

Both findings are worrisome since many experts and organizations believe regular cigarettes are more harmful to health than e-cigarettes. Taxing e-cigarettes could potentially result in more diseases and deaths rather than an improvement of public health. Likewise, limited competition in the industry keeps e-cigarette prices high, preventing regular smokers from switching to e-cigarettes and even quitting smoking altogether.

¹ The tax would reduce e-cigarette sales by 3,188 ml/100,000 adults. Each pod contains 0.7 ml. And there are about 242,620,800 adults in the United States as of 2018 according to the Kaiser Family Foundation. Therefore, $3,188/0.7=4,554.29$ pods/100,000 adults. Which means that total e-cigarette sales are reduced by $4,554.29/100,000*242,620,800=11,049,654$ pods

The evidence presented in this study should make policymakers think twice before impulsively raising taxes on e-cigarettes. The impact of such taxes on public health is not as clear as they would like to think.

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