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1 | Introduction

Most Mexican households have a tight budget for their everyday expenses. In households that purchase tobacco products, expenditure on other goods and services is displaced in what is known as the crowding-out effect. This impacts not just households' current expenditures but also their future quality of life, especially for children, because any crowding out of expenditure on certain basic goods will have long-term implications. When spending on tobacco increases, for example as a result of the regular price increases made by the tobacco industry, this crowding out is effect exacerbated.

This policy brief presents the results of a crowding-out analysis in Mexico, using data from the 2020 National Survey of Household Income and Expenditure or ENIGH 2020¹.

2| Tobacco expenditure diverts resources away from basic needs

Figure 1 shows the results of the crowding-out analysis. In Mexico, the results show that, due to an increase in the price of cigarette packs, tobacco expenditure reduces spending on health care, education, housing, and clothing while increases spending on food, entertainment, transport, and durable goods, as well as consumption of potentially harmful products like alcohol. This shift in expenditure occurs across the entire population of smokers, regardless of their income level. However, the reduction in spending on health care, education, and housing is greater for lower-income households. Spending on alcohol increases with tobacco spending at all income levels.

KEY MESSAGES

In Mexico, tobacco consumption crowds out spending on essential goods and services like education and health care while increasing expenditure on harmful goods like alcoholic beverages.

Lower-income households are most impacted by crowding out and see the greatest reduction in expenditure on health care and education.

Tobacco control policies, including tobacco taxes, are effective at reducing consumption. The additional revenue from tobacco taxes could be used to fund the implementation of comprehensive tobacco control policies aimed at maximizing smoking cessation and channeling more resources into the health and education sectors.

3| Higher tobacco expenditure

When tobacco spending increases, for example as a result of the regular price increases made by the tobacco industry, households adjust their budgets. A 40% increase in the price of cigarettes (going from 58.1 pesos to 81.3 pesos per pack) would generate an increase in spending on tobacco among those households that continue to consume cigarettes.

¹ Crowding-out and impoverishing effect of tobacco in México. CIEP, 2021.

Figure 1 Displacement of spending in smoking households due to tobacco expenditure (% change in household income)



Source: Prepared by CIEP with information from ENIGH 2020

As a result, households would spend less on health care, education, housing, and clothing while increasing expenditure on potentially harmful goods like alcohol. This impact would be more pronounced among the poorest households.

Accordingly, new revenues raised from tobacco tax increases should be used to help fund smoking prevention and cessation programs, particularly for lower-income smokers, to help mitigate this challenge. Moreover, because lower-income households are likely to rely more on public health care and education, using new tax revenues to strengthen these systems is also likely to benefit these households to a greater extent.

4| Public policy implications

The results show that tobacco consumption has repercussions on Mexican households, driving down spending on essential goods and services like health care and education and increasing expenditure on harmful goods like alcohol.

These results clearly show a need for public policies aimed at reducing the number of smokers.

The lack of public policies aimed at reducing tobacco consumption can produce long-term adverse effects, particularly for children in the lowest-income households. Therefore, comprehensive tobacco control policies, including tobacco taxes, can be a powerful tool for boosting future income-generation capacity and quality of life.

How raising tobacco taxes may alter households' consumption on other goods and services may be part of a further research which distinguishes this effect from that of a price increase made by the industry.



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