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## Direct and Indirect Costs of Tobacco in Indian Economics

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**Abstract:** *In the economic field and society these problem arise and effect on growth of economy in direct and indirect way. In certain ways, direct and indirect costs to economy growth. Keeping use tobacco in future generations is dangerous to his/her health. The health and economic burden of tobacco use on our society far exceeds the revenue generated through tax collected from the tobacco industry. Tobacco consumption accumulates; it is increasingly becoming evident that tobacco inflicts high direct and indirect costs on society. This paper explains the direct and indirect cost to individual, society and economy of India.*

**Keywords:** *Tobacco, Economy, Direct Cost, Indirect cost, Taxes, Consumption.*

### I. INTRODUCTION

According to the Indian Council for Medical Research, as new research and medical evidence of the dangers of tobacco consumption accumulates, it is increasingly becoming evident that tobacco inflicts high direct and indirect costs on society. The health and economic burden of tobacco use on our society far exceeds the revenue generated through tax collected from the tobacco industry.

Tobacco is an agricultural product processed from the leaves of plants in the genus Nicotine. It can be consumed, used as an organic pesticide and, in the form of nicotine tart rate; it is used in some medicines [1].

### II. METHODOLOGY

The available literature on the topic has been studied and reviewed to examine the e-material in the internet related to topic. Most of data on the e-resources taken from differentiate website. Sometime the conceptual and textual information related to the present study were collected both from primary and secondary sources of information such as books, professional journals, magazines, newspapers, conference proceedings as well as from unpublished sources.

### III. CONSUMPTION

Tobacco is consumed in many forms and through a number of different methods. Below are examples including, but not limited to, such forms and usage.

Beedi	Hookah Kreteks
Chewing tobacco	Roll-Your-Own
Cigars	Pipe smoking snuff Snus

Cigarettes Creamy snuffs	Topical tobacco paste
Dipping tobaccos	Tobacco water
Gutka	

#### IV. MAJOR PRODUCT

**China:** Around the peak of global tobacco production there were 20 million rural Chinese households producing tobacco on 2.1 million hectares of land. While it is the major crop for millions of Chinese farmers, growing tobacco is not as profitable as cotton or sugar cane.

**Brazil:** In Brazil around 135,000 family farmers cite tobacco production as their main economic activity. Tobacco has never exceeded 0.7% of the country's total cultivated area.

**India:** India's Tobacco Board is headquartered in Guntur in the state of Andhra Pradesh. India has 96,865 registered tobacco farmers and many more that are not registered. Around 0.25% of India's cultivated land is used for tobacco production [4].

#### V. TOBACCO COMPANIES IN INDIA

ITC Limited is one of India's highest ranked privately owned companies. Forbes Magazine rated it among the world's best big companies; with ITC ranking third in those same privately owned companies for pre-tax profit. The company has over 20,000 employees at more than 60 locations spanning India. India is the largest producer and exporter of tobacco in the world. Production reaches 700 million kilograms annually. This, in part, can be attributed to a varied climate across the country, which allows the consistent availability of a wide range of tobacco for export throughout the year [5].

#### VI. PROBLEM IN TOBACCO PRODUCTION

**Child Labor:** The International Labor Office reported that the most child-laborers work in agriculture, which is one of the most hazardous types of work. The tobacco industry houses some of these working children.

**Economy:** The cultivation of tobacco can be economically detrimental to developing countries. When resources are put into tobacco production, they are taken away from food production. Large amount of firewood, that could be used domestically for fuel and heating, are instead used for the curing of tobacco.

**Environment:** Tobacco production requires the use of a large amount of pesticides. Tobacco companies recommend up to 16 separate applications of pesticides just in the period between planting the seeds in greenhouses and transplanting the young plants to the field [3].

#### VII. WHAT ARE THE DIRECT COST OF TOBACCO USE ON SOCIETY?

- Tobacco use places a huge burden on the health resources and services of our country. The total health cost entailed by major tobacco-related diseases like cancer, lung disease and heart disease was estimated to be about Rs 36,833/- crore for the year 2009 [2].
- The total social costs of tobacco products exceed the direct outlay on them, owing to morbidity.
- Mortality and negative externalities associated with the consumption of tobacco products.
- The total cost of tobacco use in 2004 was estimated at \$1.7 billion USD.
- In 2004, direct health care costs attributable to tobacco reached \$1.2 billion USD, 4.7% of India's total national health care expenditure [2].

- Tobacco contributes about 12% of the country's excise revenue and accounts for 4% of India's agricultural exports. But these do not take into account the huge health, overall economic and social costs associated with tobacco cultivation and production.
- Evidence shows that tobacco is a major cause of several chronic and debilitating diseases like cardio-vascular diseases and many types of cancer [2].
- Its cultivation causes green tobacco sickness and exposure to tobacco dust during processing cause's asthma and lung diseases.
- The bidi industry is a totally unorganized sector. According to existing law, manufacturers producing less than 2 million bidis a year are exempt from excise duty. So bidi manufacturers show production units and figures in fragments or as home-based units so the government loses a lot of revenue due from the excise duty [2].

#### **VIII. WHAT ARE THE INDIRECT COST?**

- The costs inflicted by tobacco consumption extend much beyond the direct users to cover secondary smokers as well as non-users and are spread much beyond the period of actual consumption of tobacco. Lost economic opportunities in highly populated, developing countries like India are severe because half of all tobacco-related deaths occur during the prime productive years (age 30-69).
- There are a number of indirect, intangible costs including pain and suffering of smokers, passive smokers and others (for example, the bereaved), economic burden on families who suffer due to death of tobacco users who were sole income providers, as well as lives lost by active and passive smokers [2].

#### **IX. WHAT ARE THE SOCIAL COSTS INCURRED DUE TO TOBACCO?**

The social costs of tobacco are not just paid by governments. A high proportion of costs are borne by private individuals or by business. In addition, tax paid on tobacco products is almost certainly paid by ill-informed and addicted smokers (the bearers of social costs) rather than by the tobacco industry (the prime source of these costs). World No Tobacco Day 2010 will be designed to draw particular attention to the harmful effects of tobacco marketing towards women and girls [5].

#### **X. WHY IS IT TO HAVE A RATIONAL TAXATION POLICY FOR ALL TOBACCO PRODUCTS?**

1. Increasing the price of tobacco through higher taxes is the single most effective way to decrease consumption and encourage tobacco users to quit. Article 6 of the FCTC recommends parties take into account tax policies and price policies as a part of their overall national health policy. WHO recommends all government raise taxes? All tobacco products should be taxed similarly and need to be regularly adjusted for inflation.
2. Opponents of state tobacco tax increases often claim, incorrectly, that tobacco taxes are unreliable sources of state revenue. In reality, the success of effective tobacco control policies means that cigarette consumption will drop more rapidly than in the past- a trend that benefits public health, increases worker productivity and lowers state health care costs.
3. Significant tobacco tax increases always produce substantial net new revenues. Evidence shows that wherever the state has passed a significant cigarette tax increase; there has been a substantial increase in tax revenues. This occurs, despite significant declines in smoking rates. The higher level of state tobacco tax revenues after a rate increase will decline over time as state smoking levels continue to shrink, but the revenue levels will remain much higher than they would have been without the rate increase [7].
4. States can implement numerous cost-effective strategies to maintain and increase their tobacco tax revenues. To increase and then stabilize total state tobacco product tax revenue, states should make sure their tax rates on other

tobacco products parallel their cigarette tax rates. Establishing such tax parity will ensure that a state does not lose revenues when smokers switch from cigarettes to other tobacco products. A recent study based on the NSSO data showed that in India, the tax on bidis can be increased to Rs. 100 per 1000 sticks and that of cigarettes can be increased on an average to Rs. 3.5 a stick without the loss of revenue to the government. It can be concluded that the current rates are not effective in bringing down consumption to the expected level; hence it is necessary to work out a significant increase of duties on bidis and continuation of higher levies on cigarettes [7].

- Higher tobacco taxes can save lives. Increasing tobacco taxes by 10% decreases tobacco consumption by 4% in high income countries and by about 8% in low income and middle income countries. A 70% increase in the price of tobacco could prevent up to a quarter of all smoking related deaths worldwide. According to sources, a 33% increase in tax on bidis would result in 24.75% increase in government revenue. Lower consumption will lower the health care costs for tobacco related diseases [7].

#### **XI. WHAT CAN GOVERNMENT DO TO REPLACE TOBACCO FRAMING WITH ALTERNATIVE CROPS WITHOUT COMPROMISING ON THE REVENUE?**

- The government should stop contradictory policies of tobacco control and tobacco promotion in a phased manner.
- It should establish coordination and linkages between central and state health ministry's for strict and sustained implementation of COTPA in all the states [3].
- At least 65% of the tobacco farms in states like Andhra Pradesh, Karnataka, Madhya Pradesh, Gujarat, Maharashtra, and Orissa which account for overall 90% of total tobacco cultivation, should be gradually curbed by encouraging cultivation of new, alternative crops like soybean, groundnut, red gram, maize, paddy, green gram, chilies, mustard, black gram, sunflower, cotton and sugarcane (as suggested by Central Tobacco Research Institute and Bidi Tobacco Research Station.) [3].
- The government has to strengthen and continue with greater vigor, the recent pilot initiatives by the Ministries of Labor to train bidi workers in alternate livelihoods and rehabilitate tobacco growers by helping them shift to other vocations or grow alternate crops. The Ministry of Health and Family Welfare initiated a pilot project for developing alternative cropping systems to replace bidi and chewing tobacco with Central Tobacco Research Institute (CTRI), Rajamundhry. Project sites include Nandyal (Andhra Pradesh), Anand (Gujarat), Dharmaj (Gujarat), Nipani (Karanataka), Vedasandur (Tamil Nadu), and Dinhatra (West Bengal) [3].
- It should also control supply of tobacco products from external sources, legal and illegal, by banning import of tobacco products and foreign direct investment in tobacco sector [3].

#### **XII. KEY RECOMMENDATION**

- Tobacco inflicts high direct and indirect costs on society due to the high morbidity and mortality associated with consumption of tobacco products [6].
- Increasing the price of tobacco through higher taxes is the single most effective way to decrease consumption and encourage tobacco users to quit.
- FCTC Recommends that government make tax and price policies as a part of their overall national health policy.
- All tobacco products should be brought under the tax net under a unified Goods and Services Tax (GST) system to remove tax exemptions on hand-made bidis and small scale production of other tobacco products, including smokeless products.

5. Current taxes on tobacco products should be assessed and rationalized to bring in revenue, help reduce poverty and bridge income inequalities.
6. Taxes collected from tobacco products can be used to support health promotion and tobacco control programmed.
7. The Government needs to strengthen and upscale its current pilot initiatives on alternate cropping and alternate livelihoods to replace tobacco farming and bidi rolling, to reaffirm its commitment to tobacco control and reduce tobacco use.

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