

Discuss the Implications of Price Elasticity of Demand for the UK Government Tobacco Taxation Policy

The taxation on tobacco has long been a discussion point for most people who smoke cigarettes and 'rollies', with usual argument that taxation is far too high. On the other hand non-smokers argue that taxes should be raised to discourage people from smoking. What I would like to look at the reasons why the government puts such a high tax on tobacco, the relationship this has with elasticity of cigarettes and what other variables affect the price elasticity of demand.

There has been a close relationship between the taxation and the demand of cigarettes, at first the government put a tax on tobacco and other demerit goods as it was a good way of raising finance. Over the years there was a shift in government policy towards the health issues of smoking, this was due to the higher costs on the NHS for smoking related health problems for example 'CANCER'. The taxation of cigarettes slowly increase, the government was under the assumption that the increase in tax would deter people from buy them, especially people who were in the lower income levels, assuming that tobacco had an elastic price elasticity of demand. In a recent work commissioned by customs suggest that the decline in smoking would be 0.3 per cent if the price were to increase by 1 per cent in real terms, showing tobacco to have inelastic price elasticity of demand. Unfortunately this is due to tobacco being an addictive product, even with added health warning printed on the packets the demand would not fall by enough to make any significant impact.

Taxation on tobacco is a very goods source of raising finance for the government, so there is a conflict of interest, the government wants to decrease the amount of NHS money spent on treating people with health problems related to tobacco. At the same time they still need the revenue brought in by the taxation on tobacco. In a study commissioned by the tobacco industry they claim that the industry is a major part of the economical stability of the country, but they fail to recognise the cost that is accrued by smoking-induced illnesses and premature deaths and the ability of people to substitute tobacco with another product or service.

Now the government faces more problems with tobacco, since the creation of the EU and the free market on goods between countries in the EU. Up to quite recently there was a limit on the amount of tobacco that could be brought into UK veer the continent, even though we were already supposed to be in a single market. In a single market a person is aloud to purchase and bring in tobacco of any amount, from one EU country into another, if they can prove that the tyobacco was for personal use only. In the UK customes and excise were stopping cars and impounding them for bring in more than