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Why Stephen Koukoulas is plain wrong on cigarette packaging

HENRY ERGAS THE AUSTRALIAN JUNE 21, 2014 12:00AM



Former Gillard economic adviser Stephen Koukoulas. Picture: Annette Dew Source: News Limited

IN this case too, as with climate change, “the science was settled”: plain packaging would “reduce the consumption of tobacco by about 6 per cent and the number of smokers by 2 to 3 per cent”.

And the greatest impact would be on those “people who have not yet started smoking”, as plain packaging deprived the industry of a “very powerful tool for recruiting new smokers to their deadly products”.

How times have changed. Now, as new data casts doubt on Nicola Roxon’s claims, diehard supporters of her policies, such as former Gillard economic adviser Stephen Koukoulas, are generating excuses more rapidly than you can say “the parrot is simply resting”. The real puzzle is why Roxon was ever so confident. Far from “ample research” backing her assertions, earlier studies had questioned the efficacy of policies curtailing cigarette marketing. Indeed, when pressed, the evidence Roxon repeatedly mustered for plain packaging was the industry’s opposition to it. Why was “big tobacco fighting so vigorously”? “Because they know, as we do, that plain packaging will work.”

Like Wayne Swan’s statement that the campaign against the mining tax proved the tax’s merits, Roxon was deeply confused: the mere fact that plain packaging harms cigarette producers doesn’t mean it will promote public health. In fact, basic economics shows that instead of lowering tobacco consumption, plain packaging may increase it, and the risk of cancer with it.

The reasons are straightforward. Before plain packaging, at least some consumers were willing to pay a premium to consume, and be seen to consume, the higher quality brands. Moreover, each brand had its own, expensively cultivated, image and loyal clientele. With rivalry between brands focused on “look and feel”, the result was to mute price competition in the industry, thereby raising cigarette prices and lowering demand.

For example, in the TV series *Mad Men*, Don Draper’s major client, the iconic brand Lucky Strike, had no incentive to cut its margins: lower prices wouldn’t shift the consumer who would “walk a mile for a Camel”, but would slash revenues from its own customer base. As the same logic applied to Camel, Lucky Strike could safely set its prices high, confident Camel would follow. And with the top end brands all acting similarly, there was a price umbrella under which the lower quality brands could also earn a good living.

But plain packaging changes that dynamic.

Consumers are scarcely likely to pay the premium that funds Draper’s martinis if the label no longer proclaims their good taste. Rather, once the pack is purely generic, even rusted-on loyalists will shop around. Rivalry to snare those increasingly footloose buyers then triggers discounting; and with large numbers of consumers also shifting from higher quality to lower quality products, the average prices paid will fall by even more than the discounting alone would suggest.

As a result, by lowering prices, plain packaging may actually boost consumption, compared to what would have happened without it. And with teenagers’ demand for cigarettes about three times as price responsive as that of adults, the perverse consequence may be to enlarge the base of younger smokers Roxon pledged her policy would shrink.

In practice, the price-lowering impacts of plain packaging have been obscured by steep hikes in cigarette taxes, with the excise rising 25 per cent in April 2010 and then 12.5 per cent last December. Those increases make it difficult to isolate the effects of plain packaging; but what evidence there is does not support Roxon’s claims.

An econometric analysis by researchers at the University of Zurich is a case in point. Using a broad range of methods, the researchers conclude that plain packaging has not reduced the incidence of teenage smoking in Australia. True, the study was funded by Philip Morris; however, it is methodologically rigorous, and its results are consistent with those of earlier research.

For example, a widely cited econometric analysis of Australian tobacco consumption found measures such as advertising bans had not reduced tobacco consumption; instead, the long-term decline in consumption was due to ever higher taxes.



Health Minister Nicola Roxon Source: News Limited

Equally, statistical analyses suggest restrictions on the retail display of tobacco products, which came into effect in 2010 and 2011, did not accelerate the trend fall in tobacco consumption.

Those results should have cast doubt on the plain packaging policy. After all, that policy imposes significant costs. Consumers are harmed, as the quality of a product they value is forcibly degraded; producers' profits are reduced and their trademarks destroyed; and if consumption rises as plain packaging causes prices to fall (relative to the levels they would otherwise have achieved), the community's health suffers. But a proper analysis assessing those costs and comparing them to the likely benefits was never done. "Jumping the shark" as Labor lurched into crisis, Roxon instead announced the government's intention to mandate plain packaging before a regulation impact statement could be issued. As the Office of Best Practice Regulation noted in finding that she had breached the government's own guidelines, "the preparation of a RIS and its subsequent publication would have demonstrated a commitment to evidence-based policy and transparency".

Roxon's failure to undertake a RIS means the Abbott government must complete a post-implementation review of the plain packaging legislation by December. It should seize that opportunity to carry out an independent, rigorous review of policies towards the tobacco industry. The unfortunate reality is that this area has become a policy trapdoor: once a policy is implemented, there is no way out, no matter how costly and ineffective it may be.

The restrictions on the retail display of tobacco products are a case in point; plain packaging is shaping up to be as well; and the Henry report, written before the latest tax hikes, was right to warn against further increases in tobacco taxes, as there was no evidence smokers imposed greater costs on society than the taxes they paid recouped. These are all part of a punitive approach that should be reconsidered.

Nothing better illustrates that approach than the decision by commonwealth and state health departments to assume that losses imposed on smokers don't need to be taken into account in assessing whether those policies improve community wellbeing.

The analogy is with theft: the costs police action imposes on robbers are not usually included in analysing the net benefits of law enforcement. But while smoking may be a vice, it is not a crime; and by imposing an arbitrary exclusion from the equal consideration all law-abiding Australians deserve, disregarding smokers' welfare merely allows the nanny state to get away with poorly thought-through interventions.

Unfortunately, properly evaluating those interventions won't be easy. Roxon didn't only resile from an evidence-based approach: she also failed to put in place mechanisms to transparently monitor the policy once it was in operation.

That makes it all the more ironic that her advocates, such as Koukoulas, criticise The Australian for trying to get to the facts. But however confused Koukoulas may be, at least he finances his own mistakes; the ABC's Media Watch, which has raised one-sidedness on these issues to the dizzying heights only public funding can allow, has no such excuse. Rather, it brings to mind Thomas Jefferson's dictum that while "truth can stand by itself", "it is error alone which needs the support of government". Taxpayers deserve better; nothing would do more to provide it than a real commitment by the government to push ahead with the scrutiny this paper has set in train.

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