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# How reduced tobacco consumption benefits the economy

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25 April, 2021

A new IPS study offers empirical evidence that the net impact on the output of the national economy due to decreased tobacco consumption is positive because of increased spending on non-tobacco goods and services.

On average, a tobacco-user household spend Rs.2,000 per month on tobacco, constituting 4% of the household budget.

Spending on tobacco can drive out other critical household expenditures including basic needs such as food, education, health and housing. This 'crowding out effect' is greatest for poor families, affecting not only the smoker but the rest of the family as well. Based on the Household Income and Expenditure Survey (HIES) data of the Department of Census and Statistics (DCS) and the Economics of Tobacco Toolkit of the World Bank, a new IPS study provides empirical evidence that the net impact on the national economy's output from decreased tobacco consumption is positive.

The IPS study reveals that a 20% reduction in tobacco consumption will lead to a 30% net benefit to the economy through increased consumption of non-tobacco goods and services.

Accordingly, based on the output approach, the study offers compelling evidence that reduced tobacco consumption will yield net positive gains on national income through increased consumption of non-tobacco goods and services.

The above estimates are based solely on the output approach and do not take into account economic benefits associated with reduced tobacco use such as reduced healthcare costs, reduced environmental costs and other positive gains linked to increased non-tobacco consumption; all of which accrue benefits not just for tobacco users, but for the country as a whole.

Furthermore, the study shows that household spending on basic needs is negatively affected by tobacco-related expenditures. Poor families spend nearly 60-70% of their income on food, reflecting budgetary constraints for other basic needs such as education, health and housing. Notably, among the poorest 40%, tobacco-user households allocate a lower budget share on food, health, education and housing compared to tobacco non-user households. This implies that household budget allocations are constrained by tobacco expenditures.

Despite the threat of tobacco to human health, many governments have not taken sufficient action on tobacco control, partly due to concerns about the undesirable consequences on national income. The fear of a negative impact on national income by reduced tobacco production is due to a lack of information.

This IPS study offers empirical evidence to support effective tobacco control policies in Sri Lanka.

The findings show that implementing tobacco control policies to reduce smoking will enhance household welfare and the national economy will also benefit as a result of the released tobacco expenditure being diverted to other non-tobacco goods and services. The study, therefore, is important evidence for Sri Lankan policymakers in support of stronger tobacco control measures including higher tobacco taxation.

The report has been authored by Priyanka Jayawardena and Harini Weerasekera.

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