



# **New study on going smokefree - major economic gains for NZ society with manageable costs for government**

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Nick Wilson, Driss Ait Ouakrim, Samantha Howe, Coral Gartner

**BRIEFING** to the  **Incoming Government**

# Summary

This *Briefing* details our just published study on the economics of Aotearoa NZ's smokefree endgame policy package (ie, the smokefree law that the new coalition government plans to repeal). In addition to immense health gains identified previously, the new study found that the policies would generate considerable growth in income for NZ citizens with a total cumulative gain of US\$31 billion (\$NZ46 billion) by 2050. From a government revenue perspective, increased superannuation payments (due to longer lifespans) and reduced tobacco excise tax revenue (due to people quitting smoking) produce a net financial shortfall for the government of US\$11.5 billion (\$NZ17 billion) by 2050. But fortunately, the government has a wide range of options for addressing such revenue shortfalls that are far more appropriate than perversely relying on tobacco tax. Given both the major health and economic gains to NZ citizens from this smokefree law – it should be favoured by an evidence-informed government.

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A recent [Briefing](#) detailed how the new coalition government is planning to repeal the 2022 smokefree law that covers tobacco retail reduction, denicotinisation of smoked tobacco products and creates a smokefree generation. Previous work indicated the very large potential health benefits (thousands of premature deaths prevented), including the very large reduction in Māori:non-Māori health inequities, this law would achieve.<sup>1</sup> The billions of dollars of savings in health system costs for NZ from these type of commercial tobacco endgame approaches have also been described.<sup>2,3</sup> But our just published study goes further to look at all the major potential long-term economic impacts of these smokefree measures. The full version of this publication is at the journal [here](#) (paywalled),<sup>4</sup> or the final unformatted manuscript is [freely available here](#).

## What this new study did

We used a well-established tobacco policy simulation model that calculated the health impacts of the NZ Smokefree Action Plan<sup>1</sup> (with this plan ultimately being very similar to what the 2022 smokefree law covered), with additional economic modules. This simulation model is an upgrade of the BODE<sup>3</sup> tobacco model which was ranked as the highest quality model out of 25 tobacco models internationally in a recent UK study.<sup>5</sup> The current study evaluated the economic effects from both government and citizen perspectives. Estimates were presented in 2021 US\$ and discounted at 3% per annum.

## What this new study found

The study found that the smokefree policies would generate considerable growth in income for the NZ population with a total cumulative gain of US\$31 billion (NZ\$46 billion) by 2050 (Table 1). But from a government revenue perspective, increased superannuation payments due to longer lifespans (from fewer people dying early from tobacco-related diseases) and reduced tobacco excise tax revenue (from people quitting smoking) result in a net financial shortfall for the government of US\$11.5 billion (NZ\$17 billion) by 2050 (Table 1).

So, overall, in addition to all the health benefits, the NZ Smokefree Action Plan involves substantial economic benefits for citizens – that are much greater than the negative impact on government finances (arising from reduced tobacco tax and increases in superannuation payments due to increased life expectancy).

Our study also looked at one way in which the impact on government finances could be reduced. That is, we considered the impact of the smokefree plan on reduced morbidity from less tobacco-related disease being commensurately converted into people working slightly longer and having a slightly delayed age of entitlement to universal superannuation. This dynamic approach, as opposed to the rigid adherence to 65 as the entitlement age, was found to largely mitigate the government revenue shortfall (down to US\$1.9 billion [NZ\$2.8 billion] by 2050).

## Comment

The new coalition government has set out its decision-making principles, which include their intention to make “[decisions ...based on data and evidence](#)”. Therefore, the new government needs to look at the economic evidence in this new study, combined with the large health benefits demonstrated previously,<sup>1</sup> and reconsider their plans to repeal this legislation.

The new government has also explained that [repealing the smokefree legislation](#) will ensure ongoing tobacco tax revenue, which it plans to use to fund income tax reductions for middle-income citizens. We find the ethics of this approach to be perverse as tobacco tax typically takes revenue from the most deprived citizens and disproportionately from Māori. Put bluntly, conserving tobacco tax revenue to fund income tax cuts is a very regressive tax strategy and governments should be trying to eliminate their dependency on tobacco tax by working towards a smokefree society.

Similarly, governments should be gratified if citizens have healthier and longer retirements – even if this does increase superannuation payments. It would be perverse for a government to rely on the prolonging the tobacco epidemic for controlling superannuation expenditure.

Our study also showed how any government revenue shortfall could largely be replaced ie, the ‘dynamic’ labour force trend analysis in our published paper. There are also many other ways that NZ Government revenue shortfalls could be replaced, including the following (albeit all these have various pros and cons associated with them):

- Increasing immigration of skilled workers to expand the NZ economy.
- Taxing house sales to foreign buyers or increasing the size of the existing international visitor tax.
- Increasing taxes on harmful products and activities (eg, carbon charges in the Emissions Trading Scheme; and taxes on: alcohol, sugary drinks and gambling).
- Introducing capital gains taxes, or land taxes, or various wealth taxes on the very rich.
- Reducing tax exemptions that benefit more affluent citizens and companies (eg, exemptions for landlords).

In summary, our just published study provides an important additional component of

evidence around the major economic benefit to NZ citizens from keeping the smokefree legislation. This needs to be added to consideration of the major health benefits of this law.

## What is new in this Briefing

- We report on our just published study that found that NZ's smokefree policies would generate considerable growth in income for NZ citizens with a total cumulative gain of US\$31 billion (NZ\$46 billion) by 2050. From a government revenue perspective, increased superannuation payments (due to longer lifespans) and reduced tobacco excise tax revenue (due to people quitting smoking) result in a net financial shortfall for the government of US\$11.5 billion (\$NZ17 billion) by 2050.
- Any government revenue shortfall (eg, from reduced tobacco tax) could be largely avoided with appropriate planning and our study gives an example. That is, if people work slightly longer (commensurate with reduced morbidity due to reduced tobacco-related disease), the government revenue shortfall is much less.

## Implications for evidence-informed policy

- Given the large size of both the health and economic gains to its citizens from NZ's smokefree law – an evidence-informed government would favour maintaining this approach for both health *and* economic reasons.
- Governments pursuing a smokefree society have a wide range of options for replacing declining tobacco tax revenue.

### Author details

[Prof Nick Wilson](#), Co-Director, Public Health Communication Centre, and Department of Public Health, University of Otago Wellington

[Dr Driss Ait Ouakrim](#), Population Interventions Unit, The University of Melbourne School of Population and Global Health, Melbourne, Victoria, Australia

[Samantha Howe](#), Population Interventions Unit, The University of Melbourne School of Population and Global Health, Melbourne, Victoria, Australia

[Professor Coral Gartner](#), School of Public Health, University of Queensland, Brisbane, Australia

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*This article is part of the series [Briefings to the Incoming Government](#), highlighting challenges and opportunities in the public health policy space.*

## References

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