

The Economic Effects of Bidi in India

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Abstract

The use of Tobacco products has become increasingly prevalent all over the world, with its effects on healthcare, income and employment being widespread and unsustainable. India being the second largest producer of tobacco, its consumption patterns can be described as unconventional and highly complex where bidi's account for 80% of total cigarette consumption. Being a much debated unregulated industry, bidi manufacturers usually work in the informal sector where labourers are exploited, making it difficult for authorities to attain momentum in maximising social welfare. This article explores the economics behind which the bidi industry operates, while also debating the irregularities in excise taxes and government interventions that fail to correct this negative externality.

Keywords: Consumption; Unregulated; Social Welfare; Excise Taxes; Negative Externality

Introduction

The use of bidi in India

Tobacco use is the world's leading preventable cause of premature death [2]. India's tobacco problem is very complex, with a large use of a variety of smoking forms and an array of smokeless tobacco products targeted at populations with substantial differences in socio-economic and demographic profiles [1]. Bidi's refer to thin, small, hand-rolled cigarettes made of unprocessed tobacco wrapped in leaves [2]. The main difference between Bidi and traditional cigarettes are that Bidi's contain three to four times more nicotine, tar and carbon monoxide, where the absence of added chemicals deems Bidi's to release higher levels of toxins when smoked.

Commonly known as the "poor man's cigarette", Bidi's represented more than 80% of total cigarette consumption in India during 2018. According to the Global Adults Tobacco Survey for India 2017 - 2018, 28.6% of all adults currently use smoking and/or smokeless tobacco products. This does not come as surprise because it is estimated that 68.8% of the Indian population lives on less than \$2 a day, which makes this cheap cigarette - that is sold on every street in India - attractive to all low-income groups as they often look for ways to relieve stress and anxiety, while younger smokers are victim to peer pressure [3]. Studies have shown that in a sample size of 74037, 64.2% of the Bidi smoking prevalence has been in urban regions where smokers are usually in the ages of 25 - 44 with no higher than secondary levels of education [4]. Consequently, knowledge gaps and risk misperceptions remain relatively high in the country given the low literacy rate in accordance to a labour participation rate of just 51%. The problem of Bidi in India cannot be undone by giving a blind eye to the country's education, unemployment and labour rates.

Bidi is the number one killer among tobacco products directly killing 600,000 Indians each year. It has been linked to diseases, such as lung and oral cancers, as well as respiratory problems, and heart attacks. Other than this, bidi smoking is associated with emphysema

and a nearly fourfold increased risk for chronic bronchitis. This has caused substantial economic burden on smokers and on their families and the nation, where direct and indirect medical costs amounted to INR805.5 billion in 2017 - direct costs contributing 20.9% of the total costs [4].

India needs to decrease Bidi use to achieve mortality reduction targets of the Sustainable Development Goals, but at what cost? Taxing on Bidi has always been at a lower rate than conventional cigarettes because most sellers aren't registered with the government. It's clear why the government is hesitant to aggressively tax this industry because it contributes millions in terms of revenue and labourers to the informal economy each year; however, the government must find a way to reduce the health toll and economic impact it creates onto the economy. Hence, the purpose of this research is to investigate the economic impact of Bidi on the Indian economy, while analysing the possible solution and failures of the government.

The economic breakdown of the bidi industry

The Indian government is known to heavily tax cigarettes on a yearly basis while the economic and healthcare costs of the most used tobacco product, Bidi's, continues to mount and pose as barrier for any educational, wealth and healthcare developments.

The Bidi industry averages a yearly revenue of \$1.4 billion more than the cigarette industry [14], yet this estimate is considered conservative as a result of the lack of regulation which provides the industries the opportunity to underreport their profits. Consequently, by reporting profits of just about \$30,000 the industry remained exempt from high tax returns. The two ways this industry manages to keep ahold of its capital is by exploiting its workers and selling bidis at very low prices.

Out of over 5 million workers in the industry, only 11% are registered with the government while the rest are mostly women working from home who depend on their wages of just \$4 per day to sustain their livelihood [15]. To avoid costs, most employers would pay workers just above the minimum wage. More than the low wages that these workers depend on to live, the workers face severe health issues that further increase the economic cost of Bidi's while making it even more difficult for authorities to regulate this industry. A basic requirement of identification for any individual is their fingerprint, and for an individual who has had limited access to education, this biometric becomes even more essential. But most bidi workers have faded fingerprints that result from handling tobacco dust and rolling them into tendu leaves [14,15]. There is also a lack of credit that would enable them to undertake self-employment, where bidi traders and manufacturers exploit poor workers by loaning them money at high interest rates. Unable to repay the loans, the workers become bonded labourers [13]. Despite much legislation enacted for the bidi industry, middlemen and contractors continue to exploit the workers. Furthermore, these workers have increased risks of aggravated tuberculosis, asthma, anaemia and other health issues. But in a time of high unemployment, many have to disregard the risks just to earn any small income.

About 15 million people in India face poverty because of spending on tobacco and associated costs, limiting the amount of money available for food and education among the poor. The fact that low income segments are the primary consumers of Bidi highlights the importance of price. Moreover, with 70% of the population falling in the low-income segment, commensurate taxation of these products to bring them at par with cigarettes can be an effective strategy to curb tobacco consumption across the country.

The total annual economic costs of bidi smoking amounts to approximately 0.5% of India's GDP, while the excise tax revenue from bidi is only half a percent of its economic costs [10]. As a result, the direct cost incurred due to smoking bidis amounts to 2.24% of India's total healthcare expenditure. Bidi-smokers and their families spend about Rs 16,870 crore every year on diagnostic tests, drugs, doctors' and hospital fees and transportation. Furthermore, bidi smoking cost India approximately Rs. 80,000 crore in ill health and early deaths in just 2017. This economic healthcare cost burden was more than five times the excise tax revenue collection done by the government from tobacco in the same year [15]. Allowing bidi consumption to continue unhindered would make income distribution even more regressive,

as the poor will continue to bear a disproportionately large share of economic costs from bidi smoking due to their higher bidi smoking prevalence.

Taxation of bidi: Role of the government

Being a demerit good, Bidi's need to be heavily taxed, like all other tobacco products, however it is not that easy. Being an entirely manual process, the production of Bidi is usually undertaken by the vulnerable women and children of society, with women making up 76% of employment in the industry. This process does a lot more than exploiting labour and risking the labourers with occupational hazards, it forces households that are reliant on the sale of Bidi to go into debt to bidi contractors when raw materials to complete the production process are scarce. Consequently, Bidi's are a particularly notable instance of undertaxed tobacco products.

The government's current tax structure post GST places a maximum burden of just 22% on bidi's compared to 53% for cigarettes and about 60% for smokeless tobacco. Bidi's are very cheap, where an average pack costs just Rs.4. Hence, there is a move in the GST regime not to tax bidi much, but it deserves to be put in the highest tax rate of 28% envisaged for cigarettes and other forms of tobacco [5].

Economically, since the demand of bidis is inelastic, an indirect excise tax would just shift a higher burden of the taxes onto the consumers to make it the cost a disincentive and hence, improving the quality of public health and welfare of the society at large. Hence, this results in a market failure, where too many bidi's are produced in accordance to the output that is socially desirable. Consequently, the imposition of a tax would increase price and allow only some people to consume bidi, which reduces the overall output and consumption of it.

However, the tobacco industry worldwide has held that increased taxation on tobacco is inefficient and unwarranted. The basis for such a position rests not only in a resistance to regulation, but also in the belief that smokers consume tobacco with full information about its health consequences, and that they take into account the costs and benefits associated with its consumption[11]. But, this is not the case in the real world where people are unaware of certain external costs and this lack of information further lead to market failures. External costs refer to passive smokers, deforestation from the extensive use of wood and also bidi litter in public places. All these circumstances create the best possible scenario for the government to intervene; however, one common argument against higher taxes on bidis is the potential loss of economic activity and employment in the bidi industry from reduced consumption. But, this argument is seems to be founded less on evidence and more on political dynamics of the industry.

Thereby, it is imperative for the government to increase the tax burden of about 22% to the WHO-recommended rate of 75%. Significant increases in taxes would dramatically reduce tobacco consumption, mortality, and morbidity while also raising substantial government revenues. Research shows that a 10% rise in bidi prices would reduce bidi consumption by 9.2% and 8.5% in rural and urban India, respectively [6]. This would raise over Rs. 40 billion in tax revenues which can be used to maximise social welfare in all regards [16]. With a higher revenue, governments can improve healthcare and education, which would transition the workforce into other modes of healthier employment and lift this smokescreen, improving the quality of life altogether. What remains to be seen is the political will to tax bidis and regulating this menace.

Conclusion and Recommendations

It's been made blatant that the key to fight the impacts of Bidi lie in the modification of the tax structure to increase taxes on Bidi consumption up to 50%. This will increase government revenue by Rs 36.9 billion and increase the average price of bidis by 53%. The price increase will avert up to 15.5 million premature deaths that would otherwise be caused by bidi smoking [11,12,15,16].

Furthermore, to ensure that all bidi brands adhere to the taxation system, the sale of unbraided bidi's should be banned and the manufacturer names should be printed to ensure tax compliance. Moreover, the volume of bidi's manufactured and sold must be recorded

along with all other bidi-related transactions. Better regulation of the sector with higher GST is prone to result in improved government revenues and improvement of work conditions and will act as a tobacco control measure too as the consumption is price elastic in nature.

All factors mentioned above won't come into any fruition unless there is an improved sense of leadership and governance. Effective implementation may be affected by the tobacco industry lobbying power, partly due to political constraints and the country's overall commitment to tobacco control [1,2,7,9]. The government must take responsibility and action by simplifying the tax administration to convey the message that regardless of the design, shape or contents, Bidi's and other tobacco products are a threat to maximise public welfare. The only way the government will be able to psychologically make all smokers fully aware of the public health losses would be to reduce and eventually eliminate the differential tax system on different products to eventually end up at a high specific tax that is regularly adjusted for inflation.

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