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# Counting The Real Cost: An Economic Analysis of Tobacco Control and Fiscal Dependence in India

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***Abstract*— Unproductive or "sin" industries such as alcohol and tobacco constitute an important source of revenue for Indian states through excise duties and indirect taxation. At the same time, these industries generate substantial negative externalities in the form of public health costs, productivity losses and social disruption. This paper examines the political economy of state dependence on unproductive industries and evaluates whether their fiscal contribution outweighs their long-term economic and social costs. Using secondary data from state budget documents, national health surveys, and official economic reports, the study compares state-wise revenue from alcohol and tobacco with public expenditure on related health outcomes and welfare losses. The findings indicate that although these industries provide short-term fiscal relief, the cumulative burden on healthcare systems and human capital significantly exceeds the revenue generated, resulting in a net economic loss. The paper argues that sustained reliance on such revenue sources undermines allocate efficiency, equity, and fiscal stability, thereby weakening all three of Musgrave's functions of public finance. The study concludes by recommending revenue diversification, stronger regulation, and increased investment in preventive healthcare to reduce fiscal dependence on unproductive industries.***

***Keywords: Unproductive Industries, Sin Taxes, Public Health Costs, State Revenue, Welfare Economics, India***

## I. INTRODUCTION

Unproductive industries, commonly referred to as "sin industries," include alcohol, tobacco, gutkha, and other harmful sectors that contribute limited productive value while imposing substantial social and health costs. Despite this, Indian states continue to rely heavily on these industries as a source of public revenue, particularly through excise duties and indirect taxes. In several states, liquor revenue alone accounts for a significant share of own tax revenue, often ranging between 10 and 30 percent.

This reliance creates a fiscal contradiction. While sin industries strengthen state finances in the short run, they simultaneously undermine public health, labour productivity, and long-term economic development. The political economy surrounding these industries reflects strong fiscal incentives and administrative convenience, which discourage meaningful regulatory intervention. This study seeks to analyse the economic trade-off between revenue generation and public health expenditure, and to examine whether continued dependence on such industries is compatible with sustainable development and welfare-oriented public finance.

## II. RESEARCH OBJECTIVES

1. To examine state-wise revenue generated from unproductive industries in India.
2. To assess the public health and social costs associated with alcohol and tobacco consumption.
3. To analyse the political economy sustaining fiscal dependence on sin industries.
4. To recommend policy measures for reducing reliance on unproductive revenue sources.

## III. RESEARCH METHODOLOGY

3.1 Data Collection: - Secondary data is sourced from: State Budget Documents, Economic Survey of India, NFHS-5, WHO Reports, and NITI Aayog Health Index

## IV. STATEMENT OF THE PROBLEM

Indian states face a fiscal paradox in which governments depend on revenue generated from industries that simultaneously erode public health, economic productivity, and long-term development capacity. While these revenues appear beneficial in budgetary terms, the associated health and social costs remain largely unaccounted for. This results in an underestimation of the true fiscal burden and raises serious concerns regarding the sustainability, equity, and efficiency of current state fiscal strategies. The problem calls for a reassessment of

public finance policies to better align revenue generation with welfare and development objectives.

## V. ANALYSIS AND DISCUSSION

### 5.1 Fiscal Dependence on Unproductive Industries

A significant number of Indian states rely heavily on revenue generated from unproductive or "sin" industries, particularly alcohol and tobacco. States such as Tamil Nadu, Karnataka, Andhra Pradesh, Maharashtra, and Uttar Pradesh derive a substantial share of their own tax revenue from liquor excise duties, often exceeding 20 percent. Tobacco products further contribute through GST, compensation cess, and licensing fees.

This reliance offers short-term fiscal stability due to ease of collection and predictable demand. However, such revenues are consumption-based and do not arise from productive economic expansion. These industries contribute little to capital formation, technological progress, or skill-intensive employment. As a result, state finances become structurally dependent on activities that do not strengthen the long-term growth potential of the economy.

### 5.2 Public Health and Social Costs

The fiscal benefits of sin industries must be evaluated against the extensive health and social costs they generate. Alcohol consumption is strongly associated with liver diseases, road accidents, domestic violence, and workplace absenteeism. Tobacco use is a major risk factor for cancer, cardiovascular diseases, chronic respiratory illnesses, and tuberculosis.

These outcomes impose a heavy burden on public healthcare systems through increased expenditure on treatment, infrastructure, and welfare support. In addition, productivity losses due to illness, premature mortality, and reduced workforce efficiency weaken human capital formation. When healthcare costs, productivity losses, and social disruption are considered together, the economic burden imposed by alcohol and tobacco far exceeds the revenue earned by the state.

### 5.3 Political Economy of Persistence

Despite clear evidence of net social harm, unproductive industries continue to dominate state revenue structures due to political economy factors. Governments face strong incentives to preserve these revenue streams because they are administratively convenient, politically less visible, and immediately productive in fiscal terms. Concerns over revenue loss, employment disruption, and the potential growth of illicit markets discourage strict regulation or prohibition. In addition, electoral considerations and lobbying by industry stakeholders reinforce policy inertia. As a result, short-term fiscal and political priorities often override long-term considerations of public welfare, economic efficiency, and sustainability.

### 5.4 Comparative Assessment of Revenue and Costs

A comparative assessment reveals a clear imbalance between fiscal gains and social costs. Revenue from alcohol and tobacco is immediate and directly reflected in budget documents, while health and social costs accumulate gradually over time. These costs are diffuse, intergenerational, and largely borne by households and public institutions rather than producers.

Consequently, what appears as revenue-led fiscal strength in the short run translates into rising healthcare expenditure, weakened labour productivity, and increased inequality in the long run. This hidden fiscal burden creates a misleading perception of economic benefit and masks the true cost of reliance on sin industries.

### 5.5 Musgrave's Framework and Welfare Economics

Reliance on sin industries undermines all three of Musgrave's functions of public finance. Negative externalities distort resource allocation, regressive taxation worsens income distribution, and long-term health costs weaken fiscal stability. From a welfare economics perspective, social cost–benefit analysis reveals a clear net welfare loss, exposing the fiscal illusion underlying sin-based revenue dependence.

## VI. WHY THESE INDUSTRIES ARE TERMED "UNPRODUCTIVE"

Sin industries are classified as unproductive for several interrelated reasons. First, they do not contribute meaningfully to capital formation or long-term employment generation. Second, they weaken human capital by increasing morbidity, reducing life expectancy, and lowering workforce efficiency. Third, the social and health costs they generate far exceed the tax revenue collected, resulting in a net economic loss to society.

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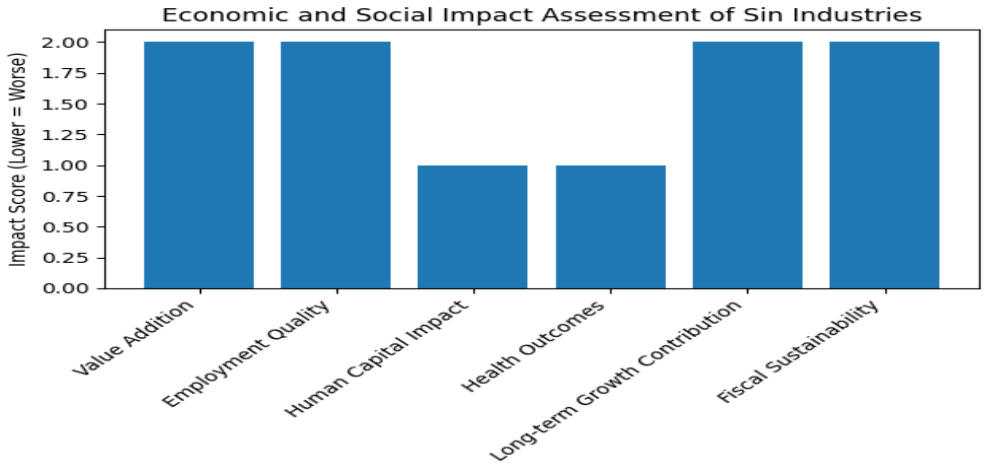
Reliance on such industries therefore reflects a fiscal illusion, where short-term revenue gains obscure long-term damage to economic growth, public finance sustainability, and social welfare. From a development economics perspective, dependence on sin industries is inconsistent with the objectives of inclusive growth and efficient resource allocation.

| Criterion | Sin Industries |
|---|---|
| Value addition | Low |
| Employment quality | Informal, low-skill |
| Human capital impact | Negative |
| Health outcomes | Severe public health costs |
| Long-term growth contribution | Weak |
| Fiscal sustainability | Illusory |




From a sustainable development perspective, sin industries conflict with several core SDGs. Their negative impact on health directly undermines SDG 3 (Good Health and Well-being), while poor employment quality and informal work go against SDG 8 (Decent Work and Economic Growth). The erosion of human capital weakens progress toward SDG 4 (Quality Education), and the long-term fiscal and social costs challenge SDG 10 (Reduced Inequalities) and SDG 12 (Responsible Consumption and Production). Although these industries may appear to support public revenue in the short run, their broader economic and social consequences hinder inclusive and sustainable growth. Therefore, a development strategy aligned with the SDGs requires gradually discouraging dependence on sin industries and redirecting policy support toward health-promoting, skill-intensive, and environmentally sustainable sectors.

## VII. PROPORTIONAL MORTALITY BY CAUSE, 2016 TOBACCO PRODUCTS

Interpretation of the Figure: Disease Burden and Tobacco Link in India

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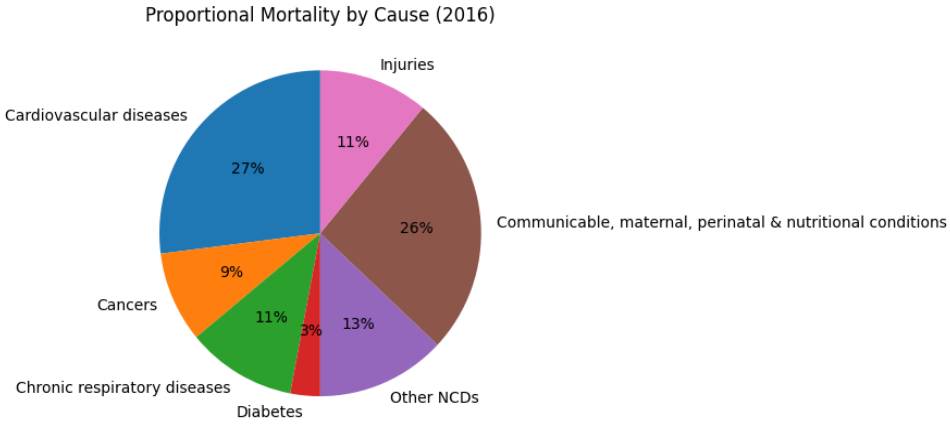
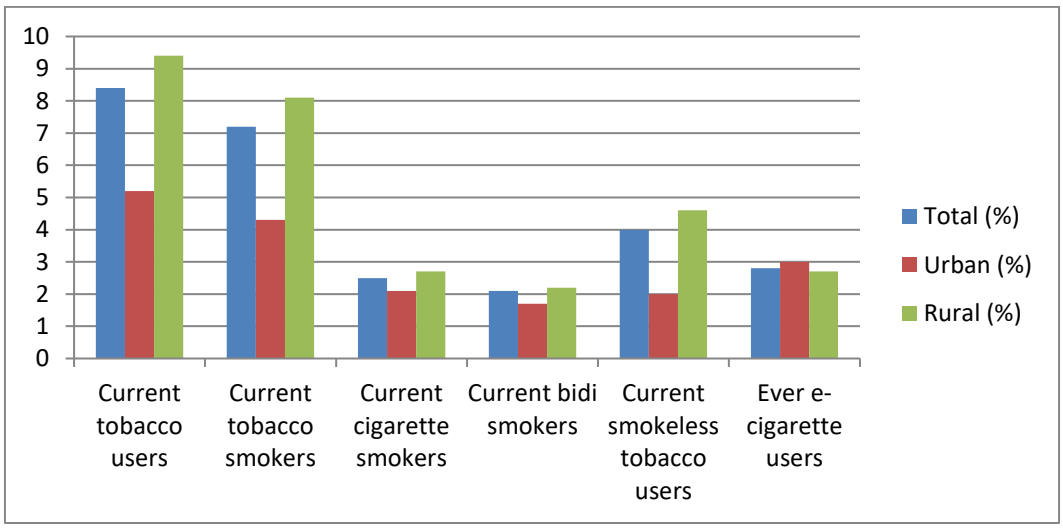



The figure illustrates the proportional distribution of deaths by major causes in India, highlighting the dominance of non-communicable diseases (NCDs) in the country's mortality profile. NCDs together account for nearly two-thirds of total deaths. Cardiovascular diseases alone contribute 27 percent, followed by cancers at 9 percent, chronic respiratory diseases at 11 percent, diabetes at 3 percent, and other NCDs at 13 percent.

These disease categories are closely associated with tobacco consumption, either directly or indirectly. Tobacco use is a major risk factor for cardiovascular diseases, cancers, and chronic respiratory illnesses, which together account for a substantial share of total mortality. The high proportion of NCD-related deaths therefore reflects the long-term health consequences of widespread tobacco consumption in India.

The figure clearly indicates that India is undergoing an epidemiological transition, with lifestyle-related and addictive consumption patterns replacing infectious diseases as the primary causes of mortality. As tobacco-related NCDs rise, public healthcare expenditure increases, labour productivity declines, and the long-term fiscal burden on states intensifies.

## VIII. TOBACCO USE AMONG YOUTH BY PLACE OF RESIDENCE (GYTS 2021-22)




Source: GYTS 2021-22

The figure presents the prevalence of tobacco use by type and place of residence, highlighting clear rural–urban disparities. Overall tobacco use is significantly higher in rural areas than in urban areas, indicating a strong rural concentration of tobacco consumption. Current tobacco use stands at nearly 9.5 percent in rural areas compared to about 5 percent in urban areas, while total prevalence remains above 8 percent.

Smoking prevalence follows a similar pattern. Current tobacco smoking and bidi smoking are both more common in rural areas, reflecting the continued dominance of traditional and low-cost tobacco

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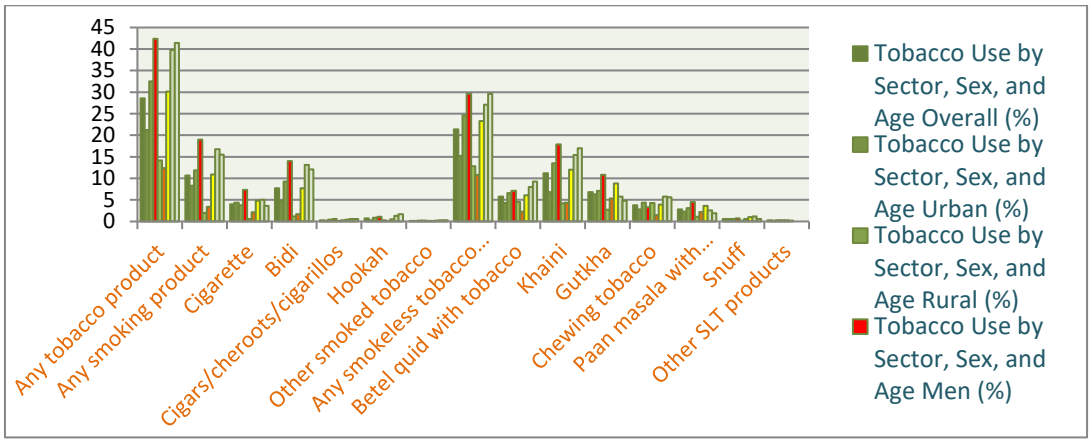
products. Rural bidi smoking exceeds urban prevalence, underscoring the link between smokeless and low-price tobacco consumption and lower-income, rural populations. Cigarette smoking shows relatively lower prevalence overall, with only marginal rural–urban differences, indicating that cigarettes are not the primary driver of tobacco-related harm in India.

Overall, the figure demonstrates that tobacco consumption in India is not only widespread but also unevenly distributed, with rural populations bearing a disproportionately higher burden. This has direct implications for public health expenditure, productivity loss, and welfare outcomes, reinforcing the regressive and distortionary nature of tobacco-related revenue dependence.

## IX. TOBACCO USE BY SECTOR SEX AND AGE




Source:- World Bank Survey 2024-25

The figure presents the prevalence of tobacco use across product categories, disaggregated by sector, sex, and age, revealing clear structural patterns in consumption. Overall tobacco use is highest for the category “any tobacco product,” with prevalence markedly higher among men and rural populations. Tobacco use increases with age, peaking in the 45–64 year age group, indicating cumulative addiction and long-term exposure.

Age-wise patterns indicate that tobacco use rises steadily from youth to middle age, reflecting habit persistence and limited cessation. Although youth prevalence is lower, experimentation with smokeless products is evident, suggesting future health and productivity risks if early intervention is absent.

Overall, the figure highlights that tobacco consumption in India is structurally concentrated among men, rural populations, and older age groups, with smokeless tobacco being the dominant form. These patterns imply a disproportionate health and welfare burden on economically vulnerable groups and reinforce the regressive nature of tobacco-related taxation and revenue dependence.

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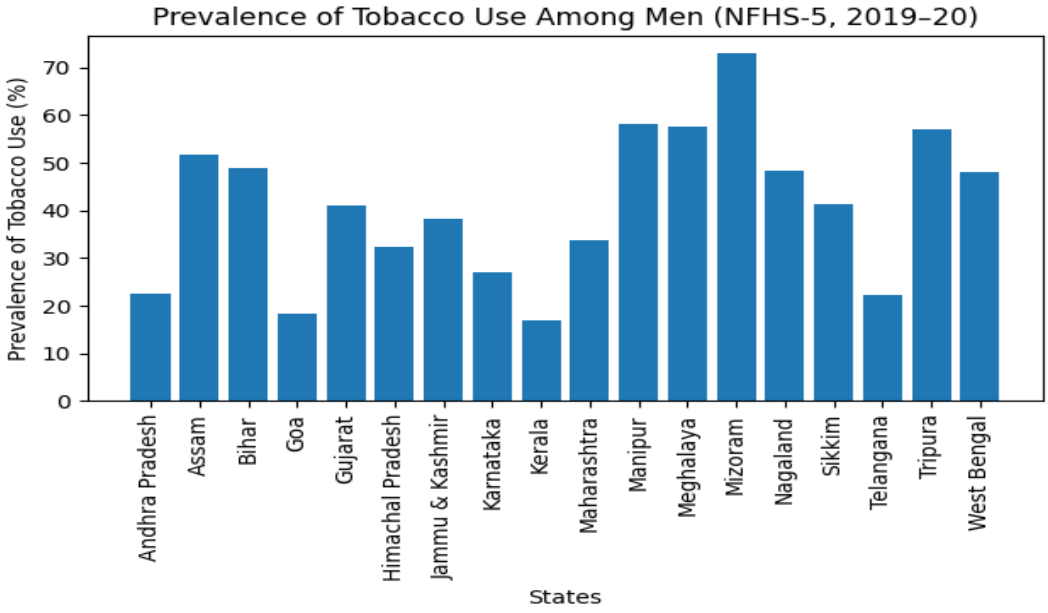
## X. WELFARE LOSS AND SUSTAINABLE DEVELOPMENT




The figure presents state-wise prevalence of tobacco use among men based on NFHS-5 (2019–20), revealing substantial inter-state variation. Tobacco use among men exceeds 50 percent in several states, particularly in the North-Eastern region such as Mizoram, Meghalaya, Manipur, and Tripura. These states display some of the highest prevalence rates, indicating deep-rooted consumption patterns and long-term public health risks.

In contrast, states such as Kerala and Goa record relatively lower prevalence, reflecting the role of higher literacy levels, stronger health awareness, and more effective public health interventions. Large states including Bihar, Assam, Maharashtra, West Bengal, and Telangana exhibit moderately high prevalence, suggesting that tobacco use remains widespread even in states with stronger administrative capacity and diversified economies.
The overall observed regional disparities highlight that tobacco consumption is influenced by socio-cultural factors, income levels, and enforcement intensity. High prevalence among men implies sustained exposure to tobacco-related morbidity, leading to increased healthcare expenditure, productivity loss, and pressure on state finances.

## XI. CONCLUSION

The study demonstrates that unproductive industries impose economic and social costs that significantly exceed the revenue they generate for Indian states. Although alcohol and tobacco remain important components of state finances, their long-term consequences for public health, labour productivity, and fiscal sustainability are adverse. The analysis shows continued reliance on these industries undermines allocates efficiency, worsens income inequality, and weakens the stabilization function of public finance.

## XII. RECOMMENDATIONS

1. Diversify state revenue through tourism, agriculture, MSMEs, and renewable energy sectors.
2. Implement strict regulatory controls on alcohol, tobacco, and gutkha industries.
3. Promote preventive healthcare and awareness programmers.
4. Increase taxation and earmark funds for public health interventions.
5. Strengthen enforcement against illicit liquor and illegal tobacco trade.

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