

Governments, Consumers, Companies, and Tobacco Addiction: The Spanish Case (1880s to 1930s)

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Nowadays governments in the developed world are restricting tobacco consumption and courts are acting against tobacco companies. The impression is that only consumers are addicts and only companies are responsible for spreading tobacco consumption. However, governments are also dependent on tobacco and also responsible for encouraging its use. This article deals with the period when tobacco started to be a mass consumption product in many countries, mainly in the form of cigarettes. By that time, the tobacco industry was organised either under a fiscal monopoly or under a highly taxed competitive market. So to understand how smoking became an universally consumed product, it is necessary to review the role of governments in this process. This role became more evident when the state became involved in any or all of the stages of tobacco businesses (plantation, purchase, production and/or retailing), usually under a fiscal monopoly, as was the case of France, Italy, Japan and Spain. In these countries, the different governments adopted active policies to promote tobacco consumption, increasing both their own dependency on tobacco revenues and people's addiction to tobacco.

Spain established a tobacco fiscal monopoly in 1637, being the first European nation to do so.² In 1887 the liberal Spanish government leased the management of the tobacco fiscal monopoly to a private company called *Compañía Arrendataria de Tabacos (CAT)*, which promoted and increased tobacco consumption. One could have predicted that the addiction and, especially the responsibility of Spanish government in making tobacco a basic consumption product, decreased when the management was transferred to this private company. However, this article shows that this was far from being the case. The Spanish government only privatised the management of the tobacco fiscal monopoly in order to increase consumption and revenues. The CAT had the capital to invest in the modernisation that Spanish tobacco industry needed to serve mass consumption with mass production techniques.

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² Although the first big European nation establishing a tobacco fiscal monopoly was Spain in 1637, the first fiscal monopoly was established in Mantova in 1634.

The Spanish case represents an ideal example to study the interaction between governments and tobacco companies in sharing the profits from the tobacco addiction and their joint responsibility on spreading tobacco consumption. This analysis focuses on the creation and performance of the CAT at the end of 19th century at the time of tobacco industry modernisation and when the profit-sharing mechanism between the company and the government was designed. This analysis shows, first the nature of consumers' and governments' addiction to tobacco; second, the government's attempt to maximise the returns from this addiction through the lease of the fiscal monopoly to a private company; and third, the interaction between the Spanish government and the CAT in increasing tobacco consumption, culminating in making tobacco a basic consumption product.

Consumers and Governments, the Subjects of Tobacco Addiction

Tobacco consumption appeared in western civilisation at the time of the colonisation of America, but it was already strongly present in the Amerindian cultures when Europeans arrived. Early, governments realised the possibilities of such a product and started to tax it or to control its trade, production and consumption under a monopolistic regime. However, the mass consumption of tobacco only started at the end of the 19th century through new technology and the arrival of the cigarette as the main form of tobacco product. This transformation was rapid in competitive market countries as the US where the role of big business and new marketing techniques was critical, and slower in monopoly countries as Spain. Nevertheless, given its addictive character, tobacco became a basic product throughout. In fact, the inelasticity of tobacco demand illustrated the way in which tobacco had to be considered a basic product. In the Spanish case, an earlier study has examined the reaction of Spanish consumers to price rises under the CAT management, and show that the main reaction was to shift to lower quality tobacco products or contraband tobacco without abandoning tobacco consumption [Gálvez, 1998, pp. 329-332]. So whilst demonstrating preferences for some tobacco types or brands, consumers became dependent on tobacco itself. Its addictive character explains why and in contrast to other products considered basic for the population, tobacco had an important potential to increase its consumption. In fact, addiction is a key word when studying the tobacco business both for consumers and governments. The addiction is and was physical and socio-cultural, and it is and was universally cultivated.

At the end of 19th century, governments, tobacco companies and social trends encouraged the addiction of consumers to tobacco. The arguments against tobacco consumption were mainly moral, and those based on medical principles lacked sufficient scientific basis. Since the link between smoking and lethal diseases was not scientifically accepted, little legislation appeared in this period.³ Governments were not aware of the future medical expenses related to tobacco, so they were far from restricting its consumption. Only when tobac-

co consumption has begun to be an economic problem for governments because of health expenses and claims, have they put effective limits to its consumption and its manufacture. In fact, scientific confirmation of the addictive character of the nicotine and the direct link between smoking and cancer and other diseases is recent, and it is only from the 1950s that the evidence has become solid enough. However, the debate about the consequences of tobacco consumption for the human body is at least as old as the introduction of tobacco in the Western world in the 16th century.

Tobacco, introduced as a medical product, rapidly became transformed into a pleasure product. By the 19th century the medical dimension of tobacco consumption was practically eliminated [Goodman, 1993, p. 51]. Tobacco was consumed because of the pleasure of doing so and because consumers were addicted to its consumption. In fact, tobacco consumption was linked to its addictive character and governments knew about it. The Spanish governments were aware of the physiological and cultural aspects of the addiction; for example, García de Torres, head of the tobacco monopoly wrote in 1874: "as opium, tea, coffee are not being basic for living, man turn by instinct to tobacco, impulse by physical necessity or invincible habit" [García de Torres, 1874, p. 47].⁴

The government's addiction to tobacco is in some sense more complex than that of the consumers', and it is mainly derived from the share of the tobacco business on the state's revenues. For governments to act against the tobacco business has traditionally meant to fight against their own interests. Therefore governments have devoted lots of effort to understanding all the implications of the tobacco supply and demand, in order to maximise the value of the business. This understanding needs to take into consideration: the cultivation, manufacture and labour aspects of its production; the social welfare function derived from tobacco consumption (state revenues and state expenses);⁵ taxation and regulation of the industry; the ability to fight against contraband; and socio-cultural aspects surrounding the tobacco consumption.

Historically, all parts of the tobacco industry have been very important for the Spanish economy, except cultivation as a way to restrict smuggling under a monopoly regime.⁶ Tobacco was the most important of the Spanish fiscal monopolies. Its share of the Spanish Treasury ordinary revenues was very high,

³ In Spain, the only restrictive legislation linked with tobacco industry was 1900 law about the prohibition of women and children to work in dangerous industries. Certain stages of tobacco manufacturing were within this category.

⁴ The cultural dimension of tobacco consumption is easily visible in the current debates about cigarette consumption and nicotine. Goodman argues that the cultural aspect of tobacco consumption is as important as its physical addictive nature, this is why he does not see the future of tobacco industry in the isolation and commercialization of nicotine independently of tobacco consumption [Goodman, 1993, p. 245].

⁵ One clear example is why nowadays, developing countries are less interested in restricting tobacco consumption through active policies than developed countries.

⁶ Tobacco cultivation was finally introduced officially in Spain in the 20th century but in a very restrictive way and mainly in the Canary Islands, which had and still has a different fiscal regime than the rest of the country.

around 12% in the period studied in this article. Following Comín's data from his study of the Spanish Treasury, this share evolved from 13% in 1850, to 12% in 1900, to 7% in 1935, and to 2% in 1970 [Comín, 1989, p. 404]. In addition, at the end of the 19th century before the mechanisation of the tobacco production process started, the tobacco industry was the biggest single industrial employer of the country. Its more than 30,000 workers represented 3% of total Spanish industrial labour force. This characterisation shows that tobacco industry was a fiscal and socio-political key for Spanish government [Gálvez, 1997, p. 39]. Therefore, it is necessary to ask why the tobacco monopoly was maintained while other fiscal monopolies were abolished during the liberal regime, and why its management was privatised.

Preceded by a big debate and several experiments, the management but not the property of the Spanish fiscal tobacco monopoly was leased to private hands in 1887. The Spanish government found in this hybrid solution a way to increase consumption and state revenues without losing its control over such an important part of its revenues and one of the most important employers in the country. Although many reasons were constructed in order to justify the maintenance of the tobacco monopoly, the real reason was purely fiscal and linked with the absence of a fiscal reform. The Spanish tobacco industry needed to keep the monopoly in the Spanish market because its inefficiency in production, its lack of competitiveness in the market and its lack of success in the fight against smuggling. In fact, a better management would help to fill the gap between production and potential consumption. The Spanish tobacco industry had to be modernised. The consequent encouragement of consumption of Spanish produced tobacco resulted in an increase in state revenues. In the 19th century when the Liberal Regime was developing, the maintenance of a fiscal monopoly offers a classic example of the degree of government consciousness about its own addiction and consumers addiction to tobacco, beyond any ideology.

Fiscal monopolies and liberal policies

Since the introduction of tobacco in Europe, European governments established controls over its trade and/or production through taxation or the creation of fiscal monopolies as it was the Spanish case in the 17th century. In this early period, the industry was not directly controlled by the state. It was only in the 18th century when Spanish Bourbon monarchy promoted the tobacco consumption from an entrepreneurial role, enlarging and creating state-owned factories, called Royal Factories, that were mainly created to exploit directly its fiscal monopolies. In fact, tobacco monopoly was not the only fiscal monopoly owned by the Spanish Crown, other products like salt or powder were under a fiscal monopoly which was a common tax tool in the Ancient Regime. Indeed, neither fiscal monopolies nor tobacco monopolies were an exclusive taxation arrangement of the Spanish Crown. Other European countries established as well tobacco fiscal monopolies. In France it was established by Colbert in 1674 to increase French fiscal revenues and Austria created a

tobacco fiscal monopoly in 1670. Although the figure of a fiscal monopoly could be considered typical of the Ancient Regime, there were countries such as England or Holland that never established fiscal monopolies and other countries such as Japan or Sweden, which did it in the 20th century. In fact, the consideration of tobacco as a fiscal monopoly is more related with the degree of intervention of the state on the economic arena and with the particular situation of the national treasuries than with the historical period as a whole. Individually, the introduction of a fiscal monopoly has always been a measure to guarantee the collection of money in a short period of time as it was the case of Japan that established a monopoly in 1904, as a consequence of the wars Japan was involved in the previous years.⁷

A fiscal monopoly means that the state exploits an economic activity under a monopolistic regime, installing a collect procedure and a system to fight against contraband products. Typically fiscal monopolies are both a fruitful source of public revenues and a provider of goods and services. Through a fiscal monopoly the governmental intervention and responsibility in business is more explicit than in a competitive market. Although certain regulatory frameworks or even the lack of regulation could be as effective as the monopoly in explaining the spreading of tobacco consumption,⁸ the role of governments in spreading tobacco consumption is easier to isolate in countries where tobacco was constrained under a fiscal monopoly. Fiscal monopolies are normally imposed over products of “universal” consumption as salt, tobacco or petrol, having a rather inelastic demand to price variations. A tobacco monopoly was possible to maintain because there is not an easy substitute for tobacco. A monopoly is difficult to maintain when there are substitutes to the monopolised product and, in fact, although a fiscal monopoly does not charge consumption, the consumer is a real tax-payer [Albiaña, 1987, p. 379]. Fiscal monopolies were profitable for the Treasury because they collected consumer taxes and shared in the monopoly’s profits and because the alternative at least in the tobacco case was very risky for the weak Spanish Treasury.

To provide income was the main objective of state monopolies although they have been justified, mainly since the triumph of liberal regimes in the 19th century, through secondary objectives as strategic reasons, as industrialisation

⁷ Tobacco was not subject to taxation in Japan until, as late as, 1876 when the government imposed a business tax on manufacturing and wholesale businesses, and on retail trade. It remained in operation until 1898, at a time when Japan was burdened with the costs of the 1894-5 Chinese War and in urgent need of funds for various public works. The business and revenue taxes were abandoned and the government established in 1898 a State Monopoly in the purchase and re-sale of Japanese leaf. The monopoly was extended to the foreign leaf towards the close of the fiscal year 1899-1900. The final step in the direction of the existing complete State Monopoly over purchase, manufacture and sale, was taken in the law passed in April, 1904, when the need for increased revenues had again become imperative, owing this time to the costs of the Russo-Japanese War [Madsen, 1916, pp. 149-167].

⁸ Madsen tried to demonstrate that consumption and state revenues were greater in countries like the US, UK or Holland than in countries having a tobacco fiscal monopoly, in order to show the superiority of competitive markets [Madsen, 1916].

promotion or as a way to avoid undesirable moral or health consequences. In Spain, tobacco was the most important revenue collector and the longest lasting of the fiscal monopolies. In addition, the control of the tobacco fiscal monopoly was not only a source of economic resources but a strong political tool: the person or company controlling the tobacco fiscal monopoly also controlled the most important distribution network of the country, and the possibility of delivery to any single town or village. And finally, the role played by tobacco industry in the Spanish labour market was essential to maintain the social order. The maintenance of a tobacco monopoly was justified on the basis that tobacco was not a basic product; it was not used as a raw material for other industries; and finally, it was a luxurious product that was also considered dangerous by many people [Pita Pizarro, 1840, pp. 325-26]. The Spanish fiscal tobacco monopoly needed justification within the liberal regime because the different governments always arrived at the same conclusion: from a purely fiscal point of view, the monopoly needed to be maintained. The head of the tobacco monopoly, before the foundation of CAT maintained that “from a pure scientific view, to liberalise the tobacco trade and consumption is preferable to monopoly but from a pragmatically view, the state monopoly is simply necessary. Only when it will be shown that the tax revenues under competition system could cover the revenues coming under a monopoly system, the government has to think in the abolition. To put under a fiscal monopoly a basic article is injustice, but a whim product is licit and it must be done until it will be profitable for the state revenues, independently of any scientific consideration” [García de Torres, 1874, p. 47]. However, between the abolition of the state monopoly and the public management of the tobacco industry a third possibility existed. Because of its economic and political principles, the Spanish liberal government believed in the superiority of a private management to increase profits and as a matter of fact, to increase state revenues, its addiction objective.

From the liberal point of view, to lease the management to a private company was a second best strategy or compromise taking into consideration the difficulty of the Spanish governments collecting the same amount of revenues without a monopolistic market. This solution came from the separation of the two functions the fiscal monopoly had in Spain: to tax tobacco and to provide tobacco. Before the decision was finally taken and in 1887 several alternatives were tried during the 19th century. Until the political arena became stable with the Restoration of the Bourbon monarchy in 1874, the measures that were implemented over the tobacco monopoly normally coincided with the liberal revolutions that happened in Spain during the 19th century.⁹ Its lack of success was a guarantee to justify the maintenance of the

⁹ The tobacco monopoly was abolished in Spain in 1813 and 1820 but rapidly restored in 1814 and 1822 respectively. Also the lease of the monopoly management to a private company was tried before the government succeeded in 1887 in doing so. In 1844 the monopoly management was privatised, but a change in the government re-established days after the tobacco monopoly under direct state control.

monopoly but the mismanagement of the tobacco industry under the direct control of the Treasury was clear. The Spanish tobacco industry was only directed by fiscal principles instead of commercial principles. The political system of the Restauracion that functioned in Spain from 1874 to 1931 consisted of two parties that alternated in power and no one wanted to take the risk of changing the tobacco monopoly, taking into consideration its share in ordinary state revenues.

It was clear that the tobacco industry and tobacco market were under-exploited in Spain and that the government could optimise its addiction to tobacco or increase it. The pressures from the Spanish parliament were frequent and its proposals clear. They focussed on what seemed to be the solution to the public mismanagement of the tobacco industry. It was necessary to produce more and more cheaply, to control the national market and to sell to other countries in order to expand sales and to collect more revenues. If the direct management was unable to do so because of its lack of capital to make the reforms, a private management with the required capital would be the solution to accomplish the reforms. In fact, the reforms that the CAT introduced, and the way in which the tobacco monopoly needed to be challenged were already planned by the government. Before the CAT management, the purchase of raw material was rigid and expensive, production was fully manual and the gap between production and potential consumption was very big with the subsequent increase in smuggling tobacco. This gap could be explained because of the lack of co-ordination between the market and the state factories that manufactured products not demanded by consumers and they were not manufacturing new products introduced in the country through smuggling. The main contribution of the new company was its available capital to make the reforms and the right management to accomplish these reforms. The Spanish government secured and increased its dose of tobacco revenues through the increased tobacco consumption of its population due to the modernisation of tobacco industry accomplished by a private company.

Foundation and performance of the CAT

As anticipated, the Spanish case represents an ideal example of showing how the profit-sharing mechanism and the sharing of responsibilities between the Spanish government and the Spanish Tobacco Company, CAT was established. In 1885 a new liberal government came into power, and one of its main objectives was to reform the Treasury to balance revenues and expenses, and to maximise the tobacco monopoly revenues as a way to reach the first objective. The minister of Finances, López Puigcerver, considered that a private management would be more profitable for state revenues and so a public announcement for the lease of tobacco state monopoly was made. The government specified that the company must be Spanish and set up an annual charge of PTAs 90 million, greater than the annual average earned by the state in the previous

years.¹⁰ The canon was set at this level because the CAT management was expected to achieve better financial performance. Probably the only Spanish institution able to take this risk was the Bank of Spain and its shareholders. The Bank of Spain and some of its main shareholders created indeed the CAT in 1887 in order to manage the Spanish tobacco monopoly. The management of the tobacco monopoly implied benefits and risks mainly derived from the restrictions imposed by the government in the lease contract. The risks were mainly related with the annual charge the company had to revert to the government that indeed provoked losses for the company in the first five years of its existence. The CAT could not modify the location of the existing factories or it could not dismiss more than 25% of the existing labour force under the lease contract. These conditions could represent a serious constraint in the transition from a manual to a mechanical production system, which was the strategy for increasing consumption. However, the contract provided many benefits for the company, such as tax exemptions both for manufacturing and for importing raw material or machines [Gálvez, 1997, pp. 33-39]. In addition, other privileges were added to the company such as the management of official stamps from 1900.

Table 1: Profit-sharing between the Spanish government and the CAT

Lease contract and modifications	Expected profits by the government	CAT percentage of profits
1887 lease contract	Fixed annual charge of PTAs 90 million	
1900 modification	Up to PTAs 140 million	5%
	Up to PTAs 160 million	10%
	More than PTAs 160 million	15%
1921modification	Up to PTAs 150 million	3%
	More than PTAs 150 million	4%

Source: Lease contract and contract modification (Archivo Histórico de la Fábrica de Tabacos de Sevilla)

Table 1 shows how the sharing of profits between the company and the Spanish government changed through the modifications made to the lease contract. If the 1900 modification contained incentives for profit maximisation, it was in the 1921 modification when the CAT suffered a deterioration in the share of profits with the Spanish government.¹¹ By that time the mechanisation and modernisation of the tobacco industry was almost accomplished and the

¹⁰ The quantity cashed by the public management was Pts 75 million. In the first 12 years of CAT's management, the Spanish government collected Pts 221 million more than if the management would be maintained under public control [Delgado, 1900, p. 27].

¹¹ Apart from the 1900 and 1921 modifications, the contract was also modified in 1896, 1909 and 1917. CAT continued formally to run the tobacco fiscal monopoly until 1945 when a new company and its successor, Tabacalera was created. During the Civil War the tobacco company was divided as was the whole country. After the war, the company was reunified under a completely new political and economic regime, Franco's dictatorial regime (1939-1975) which increased the intervention of the government in the economy and changed the relationship between government and business.

increase in consumption became quite notorious. When the Spanish tobacco industry incorporated the international tobacco technological innovations that helped to produce a standardised product and increased consumption, the Spanish government modified the lease contract with the CAT in order to obtain major control in the management of the companies and bigger share of tobacco revenues. As a result, the company started to behave more as a public company than as a private company. Parallel to the government increasing its share of profits and the government intervening in tobacco industry, CAT's profitability declined. Comín calculated that the CAT profitability evolved from 10-13% between 1890-97, to 16.6%-22.6% between 1898-1909, to 14-15.5% between 1910-19, and finally to 8-6% from 1921, after the 1920 contract modification [Comín, 1991, p. 162]. The percentage of CAT revenues in the total tobacco treasury income decreased from 7.7% on 1890-91 to 4.4% in 1935.

Under the CAT direct management, the tobacco industry increased its profitability and as a matter of fact increased the state revenues and both consumers' addiction and government addiction. This increase was due first, to an increase in tobacco consumption, as new consumers were conquered. It was directly related on one hand with an increase in the GNP per capita and, on the other hand, with the improvements introduced with the CAT management. The CAT accomplished a better balance between supply and demand of tobacco through a major product differentiation and a closer and faster answer to consumer's demands, a better distribution system and a more effective contra-band persecution. Second, the increase in profitability was directly related to an increase in productivity through the mechanisation and the imposition of cigarette consumption that was a more standardised product than cigars. Third, the CAT management witnessed also a rise in tobacco prices that did not decrease tobacco consumption, showing how consumers were addicted to tobacco and it had become a basic product for the population.

Conclusion

The role played by governments in the spread of tobacco consumption differs over time and geographically. The timing is determined by the degree of state intervention in the economic arena. The geographical differences are mainly related with to degree of development of the country and how their tobacco markets are organised. The main difference can be seen between countries that established a fiscal monopoly and countries that did not. In both cases, governments were addicts to tobacco mainly through tobacco share of state revenues. However the responsibility of governments in the spread of tobacco consumption is passive in the free market countries and active in the monopolistic countries and, as a matter of fact, easier to determine in countries in which the state became involved on the purchase, manufacture and sales of tobacco products, as was the Spanish case.

This case study shows how the lease of the tobacco fiscal monopoly to a private company did not undermine the responsibility of Spanish government

for making tobacco a basic consumption product for the Spanish population at the turn of the century. The Spanish liberal government at the end of 19th century delegated part of its control of the tobacco business in order to increase tobacco consumption and its fiscal revenues, and in so doing, increased tobacco addiction among the population. Although moral and medical arguments were upheld, it has been found only pure economic reasons in the government's direct involvement in tobacco management and in its attempt to liberalise the tobacco industry. Therefore, by leasing the tobacco business to a private company, the government exploited the growth opportunities available to the modern business expanding consumption to new customers and increasing state revenues. In addition, the addictive character of the business guaranteed a stable market, repeated purchases, and a long-run stream of revenue. The CAT, as a private company, led by industrial and commercial objectives, improved the profitability of the Spanish tobacco industry and in doing so, increased state tobacco revenues, securing the government's addiction to the tobacco business. In fact, only by taking into consideration that the addiction of consumers to tobacco is not only a physiological addiction but a socio-cultural addiction too, and the important economic implications of tobacco business for the different governments, is it possible to understand the complex relationship between governments, consumers and tobacco companies.

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