

DRAFT

TAXES AND "SOCIAL COSTS"

I. Background and Assumptions

Through 1992, the public affairs tax program aggressively maintained the anti-consumer excise tax environment among tobacco family members and those with whom we have formed alliances. Existing and new relationships were strengthened and expanded. The argument that excises are regressive and unfair to low- and middle-income families was our primary message.

Government's need to raise revenue remains the primary reason for proposing consumer excise tax increases. "Social costs" arguments, emanating from a misapplication of cost/benefit analysis in economic theory, are further used to justify such proposals and are increasingly being advanced by anti-smoking groups as a rationale for earmarking tobacco excises to fund health care reform and for many other anti-tobacco measures.

At the federal level, the dynamics of election-year politics (with record numbers of open and hotly contested seats), provided the impetus for a new push for a "balanced-budget" amendment to the Constitution.¹ A persistent recession and the "pay-as-you-

¹ Note: Items footnoted with a "1" indicate items that have been added since last year's plan; items footnoted with a "2" indicate items that have been significantly expanded from last year's plan.

go" system added to the pressure for deficit reduction. With the cold war won, Congress turned to the domestic front where health care reform assumed center stage. On both the deficit reduction and health care reform fronts, tobacco excise increases were viewed as potentially part of the financing puzzle.

Public affairs expanded its efforts to counter attempts (based largely on "social costs" arguments) to dedicate or earmark excise taxes² and created new opportunities to bring the "fair taxes" messages to candidates for federal office.¹ Public affairs also initiated new efforts to promote broad-based and/or progressive financing of comprehensive health care reform as a means of heading off the earmarking of new tobacco excise taxes.²

In the states, the trend toward proposing excise hikes to finance state deficits, health care reform and other programs mounted. Major anti-smoking ballot initiatives, based on "social costs" arguments and calling for "Proposition 99-type" programs, were proposed. Public affairs launched new coalition-building efforts to counter these initiatives and to frame future efforts to reform state initiative and referendum systems.¹

The anathema of raising taxes in an election year resulted in postponing many decisions and set the stage for fierce federal and state fiscal battles in 1993. Tobacco excises are expected

to be a part of most of the proposed solutions for these problems.

o Imposed on consumers regardless of their ability to pay, excise taxes are regressive, whether the revenue goes into the general fund or is earmarked for a specific program. A 1987 Congressional Budget Office study, along with other independent research,¹ finds tobacco excises are the most regressive of all excise taxes.

o Independent research shows that almost all state and local tax systems are regressive,² and many state tax systems have actually become more regressive since 1986.¹

o Labor/liberal, tax reform, minority, business and industry groups embrace the regressivity issue and can effectively lobby against proposals to increase excise taxes.² However, while generally business and industry oppose most other taxes as well as excises, labor/liberal and minority groups support programs funded with progressive alternatives to excises. Further, LMC allies representing minority¹ and female constituencies have commissioned research which demonstrates that excise taxes have a disproportionately negative impact on their memberships. This research bolsters their capacity to take anti-excise tax positions.

o Tobacco excises receive overwhelming public support when subjected to an up or down vote. However, the Consumer Tax Alliance (CTA) has demonstrated that when people are reminded that it is the consumer who pays the cigarette excise tax, they are more likely to oppose this regressive form of taxation.

o Focus group research conducted for the Consumer Tax Alliance shows that middle-class, likely voters believe that the nation's health care system doesn't work and that health care costs are out of control, both of which can be largely attributed to government's failure to act and excessive profiteering by the insurance industry, the legal profession and organized medicine. Moreover, incremental changes in the health care system are seen by many as primarily designed to protect large institutional interests, while comprehensive reform is viewed as more likely to benefit consumers over the long run.¹

o Many labor/liberal groups, state fair tax coalitions, business organizations and public finance experts recognize that cigarette excise taxes are not "user fees," but regressive taxes, and an inadequate revenue source over time to finance meaningful health care reform and other major social programs. They oppose attempts to increase or earmark excises for these reasons.

o The battle against consumer excise taxes is more challenging when the proposed excise tax is dedicated to a program which is

perceived as "good." The misapplication of "social costs" theory to the use of tobacco compounds this challenge.

o Economists who have analyzed the HHS program developed to estimate the alleged "social costs" of smoking at the national and state levels have found that this model contains major flaws in methodology and logic, many by the program authors' own admission, and cannot produce meaningful data, whether or not one disputes that the cost estimates generated are "social" or public in nature.¹

o The Surgeon General's assertions and the Environmental Protection Agency's likely conclusion that environmental tobacco smoke is a "Group A" carcinogen can be expected to escalate future "social costs" estimates.

o Success on the taxes and "social costs" front can be measured in large part by the extent to which Public Affairs staff is able to mobilize coalition allies, opinion leaders and experts who can create and sustain a climate conducive to the Federal Relations and State Activities divisions accomplishing their objectives.

II. Objectives

To discourage and reduce reliance on tobacco excise taxes to meet social and economic objectives by demonstrating that consumer excise taxes are regressive, inconsistent with fair taxation and detrimental to the economy.

To respond to anti-smokers' "social costs" arguments.

III. Strategies, Goals and Tactics

Strategy I: Demonstrate that consumer excise taxes are regressive and an unacceptable solution to the problem of financing government and reducing deficits.

Goals and Tactics:

At the federal level:

1. Working through the economists' network and academic research centers, encourage op-ed pieces and letters to the editor in 1993 from consulting economists as a part of a targeted media campaign in 6 to 10 congressional districts and/or states to oppose excise hikes.¹ Also, encourage presentations on the excise tax issue before congressional committees, national and regional tax policy conferences, and business organizations.

Promote published materials and appearances to the general and specialized media as appropriate. Provide articles, testimony and other published materials to Federal Relations staff and other tobacco family members.

2. Working through the Tobacco Industry Labor Management Committee (TILMC), support labor/liberal and tax reform organizations and their efforts to promote tax fairness and oppose consumer excise taxes. Strengthen and expand existing relationships by encouraging research on fair tax issues, dissemination of research findings, provision of expert testimony to key congressional committees and direct lobbying activities. Specifically, continue to support:

- o Fair tax and progressive economic policy research organizations that conduct analyses of the distributional impact of tax and other governmental policies (assure that their research findings are made available to other TILMC allies).

As needed, encourage specific research which examines the economic and distributional impact of proposed excise tax increases and, where appropriate, identifies alternative, more broad-based revenue sources which are deemed "fairer" in nature; make research findings

available to Federal Relations staff and other TILMC allies.

- o Organizations representing the interests of senior citizens, women, Blacks, Hispanics and other labor/liberal groups, and their efforts to oppose any excise tax increase through membership education campaigns, media efforts and grassroots efforts.
 - o Agriculture/farm groups, and their efforts to oppose any excise tax increase through targeted media and public education campaigns, as well as grassroots efforts.
3. Working through the TILMC, encourage labor/liberal groups to participate in briefing(s) for new Members of Congress and their staffs, as well as new members of the House Ways and Means and Senate Finance Committees, utilizing allied group studies demonstrating the impact of consumer excise taxes on working women, African Americans, Hispanics, senior citizens and rural Americans.

Support efforts of the coalition of labor/liberal groups to participate in expanded briefings, membership education campaigns, grassroots and other organized efforts to oppose

adoption of a Constitutional amendment to balance the federal budget.

4. Working through the TILMC, and following up on education efforts conducted during the 1992 election, support as appropriate and subject to the availability of funds a Consumer Tax Alliance coordinated media/audience response campaign (radio/tv/print ads in combination with an 800 number) in six to 12 Congressional Districts/media markets.¹ The campaign would be designed to remind voters of Members' statements during the 1992 election and to increase the number of Members taking the "no excise tax"/"I'm for the working man and woman" pledge.
5. Working through the TILMC, continue to conduct briefings on economic policy with labor and/or liberal audiences, using video and print materials developed by the TILMC expressly for this program; wherever possible integrate with 3. above.
6. Working through the TILMC, develop a program which identifies key congressional districts and/or states for the purpose of assuring that one or more local affiliates of LMC allies are positioned to communicate an anti-excise tax message on a timely basis, either directly or through an effective intermediary.¹ Key members of the leadership and tax-writing and budget committees, as well as selected

first-term members identified in the "open seats" project will be among those identified.

7. As a major trade association in the United States, work with and support:

- o Business organizations; e.g., the U.S. Chamber of Commerce and the National Association of Manufacturers, and their efforts to oppose any tax increase;
- o Industry groups; e.g., the Coalition Against Regressive Taxation (CART), and their efforts to oppose all excise taxes. Explore potential within CART for developing a coordinated lobbying strategy for affected industries (or "mutual assistance pact").

8. Reinforce the argument that tobacco excise taxes have a negative impact on the tobacco economy and the economy as a whole among the tobacco industry family and with federal policy makers. Continue to make available the 1992 edition of the Price Waterhouse study, "The Economic Impact of the Tobacco Industry on the United States Economy." Further maintain up-to-date information on the economic impact of tobacco on the nation's economy and the potential effect of excise tax increases and other anti-tobacco proposals. As

appropriate, provide to Federal Relations staff for distribution to Members of Congress.

9. Develop and provide targeted excise tax information kits upon request to Federal Relations Division for distribution to new Members of Congress and Congressional staff. Working through National Tobacco Council, distribute to tobacco family. Support and strengthen efforts of tobacco family groups (e.g., National Tobacco Council) in communicating opposition to consumer excise taxes and other anti-tobacco and economically detrimental regulations.

In the states:

1. Working through the economists' network and as requested by State Activities, encourage op-ed pieces and letters-to-the-editor in 1993 from consulting economists as a part of a targeted media campaign in selected states to oppose excise hikes and support rollbacks. Similarly, encourage presentations by consulting economists on the excise tax issue before state legislative committees, editorial boards and other suitable forums.

Provide articles, testimony and other published materials to State Activities staff for promotion to appropriate policy makers. Call on TAN and field staff network to support

distribution efforts. Promote appearances and presentations to the general and specialized media as appropriate.

2. Working through the Tobacco Industry Labor Management Committee (TILMC), support labor/liberal and tax reform organizations and their efforts to promote tax fairness and oppose excise taxes in targeted states. Strengthen and expand existing relationships, including the continued promotion of fair tax studies released in 1992 in IL, IN, MA, OH and RI;² support new fair tax studies in 4 additional states as requested by State Activities. Specifically, continue to support and/or encourage:

- o State fair tax coalitions and their member organizations in selected states.² Provide technical assistance and state specific research on tax fairness and revenue alternatives.²

- o Organizations representing the interests of senior citizens, women, Blacks, Hispanics and other minority groups in the states. Wherever possible, integrate their efforts with those of state fair tax coalitions and media/public education campaigns.²

- o Agriculture/farm groups, and their efforts to oppose any state excise tax increase through targeted media and public education campaigns.
- 3. Working through the TILMC and in coordination with State Activities, encourage efforts in selected states by fair tax coalitions and other labor/liberal groups to reform state initiative and referendum systems. Wherever specific initiative and referendum threats arise, mobilize existing or new coalition partners to oppose such measures in cooperation with State Activities.²
- 4. Working through the TILMC and in cooperation with State Activities, continue to aggressively promote allied group studies (and updates) on the excise tax issue through briefings for allies and elected officials in targeted states. Demonstrate the impact of consumer excises on working women, Blacks, Hispanics, senior citizens and rural Americans; wherever possible, integrate with 2. above.²
- 5. Working through the TILMC and in cooperation with State Activities, continue to conduct briefings on economic policy with labor and/or liberal audiences in targeted states, using video and print materials developed by the TILMC expressly for this program; wherever possible integrate with 2. above.

6. Continue to promote findings in selected state legislative districts of studies on potential retail sales and job losses which would result from given levels of consumer excise increases.² Make findings available to SAD staff and consultants.

7. Reinforce the negative effect of tobacco excise taxes on the tobacco economy and the economy as a whole among the tobacco industry family and with state and local policy makers at the request of SAD. Continue to make available the 1992 edition of the Price Waterhouse study, "The Economic Impact of the Tobacco Industry on the United States Economy." Further maintain up-to-date information on the economic impact of tobacco on states' economies and the potential effect of excise tax increases and other anti-tobacco proposals. As appropriate, provide to State Activities staff for distribution to state policy makers, field staffs and allies. As requested by SAD, prepare and promote economic impact studies on specific states.

Strategy II: Demonstrate that the inadequacies, complexity and skyrocketing costs of the American health care system require comprehensive, long-term reforms, and that incremental "band-aid" approaches to funding of health care reform are both bad public

policy and deceptive to health care consumers and providers.²
Demonstrate the availability of cost containment measures and
alternative, broad-based revenue sources to fund health care.²
Wherever appropriate and based on independent research, refute
"social costs" arguments being used to justify tobacco excise tax
increases to finance health care.

Goals and Tactics:

At the federal level:

1. Working with the Tobacco Industry Labor Management Committee (TILMC), support efforts by allies (e.g. Citizen Action and the National Council of Senior Citizens) to enact comprehensive health care reform as opposed to incremental efforts to address the issue.²
2. Promote media and public attention to health care reform in the Congress and the Administration by encouraging allies to convene and promote a national strategy conference.¹ Use this conference as a vehicle to further promote research and other public education materials developed during the 1992 election season and to develop financing strategies for health care reform that are tailored to the dynamics of the new Administration and the new Congress. Support the issuance and dissemination of a conference report to selected Members of Congress and key officials in the new

Administration, as well as to the media and the memberships of the participating organizations.

3. Encourage TILMC allies to testify at appropriate congressional hearings to support both comprehensive health care reform and a combination of universal cost containment measures and broad-based revenue sources as financing mechanisms.² Promote appearances to the media and encourage wide dissemination of testimony, along with follow-up visits to selected Members and their staffs.
4. Encourage bipartisan research by the independent Committee for a Responsible Federal Budget which documents the potential of cost containment, tax incentive and efficiency measures as the principal means for increasing access to the health care system.² Make research findings available to Federal Relations staff for dissemination to selected Members of Congress and key Administration officials, as appropriate. Monitor opportunities for legislative compromise on the health care reform front which rely on cost containment/"global budget" strategies; as appropriate, mobilize support for such approaches among TILMC allies.¹
5. Encourage identification and analyses of broad-based and politically viable alternative Federal revenue sources, such as different forms of provider taxes, and strong cost

containment measures (to hold provider charges down) as the primary means to fund government health care reform.

Encourage allies to support both cost containment and broad-based revenue options and to oppose earmarked consumer excise increases.¹

6. Working through the economists' network and in consultation with Federal Relations staff, encourage economists to develop and place op-eds and letters-to-the-editor which refute "social costs" arguments in selected congressional districts, where Members of Congress are advancing such arguments to support tobacco excise hikes as part of the solution to financing health care reform.²

Where appropriate, also encourage consulting economists to provide expert testimony before Congressional committees on such matters. In each instance, economists can be expected to draw on the updated "social costs" book, The Economics of Smoking, and the in-depth critique of the software model for estimating the alleged "costs" of smoking, "The Political Element in Science: SAMMEC II and the Anti-Smoking Lobby," published in 1992.

7. Identify a consulting actuary and commission a study (or identify an independent sponsor who is willing to do so) to assess the impact of small employer health insurance reform

legislation and the actuarial justification of insurance industry practices which discriminate against smokers based on "costs" arguments and promote the results through activist groups concerned with discrimination practices against their constituencies.¹

8. Continue to support and seek opportunities to strengthen and promote the National Chamber Foundation's "social costs" program. Encourage the Foundation to commission, publish and promote findings of economic research. Encourage economic consultants to conduct issue briefings on the misapplication of "social costs" theory as a means for justifying governmental intervention in the market place and for advancing ill-begotten notions of "social engineering" for and with relevant staff of business organizations such as the National Chamber Foundation.¹

In the states:

1. Working through the TILMC, and in consultation with State Activities staff, encourage the state-based affiliates of national allies committed to comprehensive health care reform and fair financing for same to oppose incremental and piecemeal efforts at the state level which rely in whole or part on regressive excise taxes as a financing mechanism. Efforts in states identified by State Activities will include analyses of proposed legislation, identification of

alternative revenue sources and dissemination of materials from parent organizations at the national level, in addition to aggressive coalition-building efforts and direct lobbying.

2. Continue to aggressively promote "Earmarked Taxes and Health Care: A Fiscal Mismatch," newly published research which demonstrates that excise taxes are inadequate and unreliable sources of revenue over time for financing health care, particularly in states where the current cigarette excise tax is near or exceeds the national average for such taxes.

Working through the economists' network and in consultation with State Activities, conduct two media tours promoting the study to specialized audiences of state finance experts and business leaders, in addition to developing 6 to 8 op-eds and/or letters-to-the-editor in selected states where the financing of health care reform through excise tax increases is under consideration.²

3. Encourage identification and analysis of broad-based and politically viable alternative revenue sources, such as different forms of provider taxes, and strong cost containment measures (to hold provider charges down) as the primary means to fund government health care reform at the state level. Encourage allies to support both cost

containment and broad-based revenue options and to oppose earmarked consumer excise increases.¹

4. Working through the economists' network and in consultation with State Activities staff, encourage economists to develop and place op-eds and letters-to-the-editor which refute "social costs" arguments in four selected states in which such arguments are being advanced to support tobacco excise hikes as part of the solution to financing health care reform measures.²

Where appropriate, also encourage consulting economists to provide expert testimony before legislative committees on such matters. In each instance, economists can be expected to draw on the updated "social costs" book, The Economics of Smoking, and the in-depth critique of the software model for estimating the alleged "costs" of smoking, "The Political Element in Science: SAMMEC II and the Anti-Smoking Lobby," published in 1992.

5. Encourage consulting economists to disseminate "social costs" research findings to economic and academic peers to increase skepticism of applying "social costs" theory to smoking by making presentations at economic conferences such as American Economic Association, Southern Economic

Association, Western Economic Association and Atlantic Economic Association, as appropriate.

Coordinate with State Activities economic consultant "social costs" briefings of economic and policy staffs of organizations such as American Legislative Exchange Council, National Conference of State Legislators, Council of State Governments and National Governors Association; encourage these groups to address the issue as a serious public policy concern. Seek publication and speaking/seminar opportunities.

IV. Resources

A. Staff

1. Management:

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2. Division staff:

Issues staff, Production Services, Media Relations, Information Center.

3. Other staff:

Federal Relations and State Activities headquarters and appropriate field staff.

B. Consultants

1. Economists

2. Public Relations Counsel

3. Legislative Counsel

4. Private research firms

5. Insurance consultant

C. Allies

1. Tobacco Industry Labor Management Committee and labor/liberal, women's, seniors', minority and other groups.

2. Coalition Against Regressive Taxation (CART)

3. National Chamber Foundation (NCF)

1 D. Materials

1. Videos
2. Data Cards
3. Economists' tax and "social costs" research
(twelve papers)
4. Topic Brochures
5. Print materials from coalitions and third party organizations.
6. Earmarking/"user fee" book
7. "Social costs"/The Economics of Smoking book
8. TI-generated publications and studies
9. Journal of Regulation and Social Costs