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SAMUEL D. CHILCOTE, JR.
President

March 10, 1993

MEMORANDUM

TO: The Members of the Executive Committee

FROM: Samuel D. Chilcote, Jr.

From the moment that it became known that consumer excise taxes on cigarettes were not included among the revenue raising proposals in President Clinton's economic stimulus/deficit reduction package, reports began circulating that tobacco was being held "in reserve" for the health care reform proposal currently being prepared by the Presidential task force chaired by Hillary Clinton.

On February 25, President Clinton officially put tobacco on the table when he told reporters that he drew a distinction between "sin" taxes on products like tobacco and other regressive taxes when it came to financing health care. That comment came during a White House ceremony featuring business and labor leaders who had endorsed the Clinton economic package. Clinton later that day also told reporters he had specifically "passed up a chance" to include alcohol with tobacco.

As the White House task force works to pull together its health care reform package, we understand that it is most concerned about its ability to sell that package in the south. That is where its polls show doubt is the strongest.

Given those concerns, Institute staff is working closely with Washington representatives from your companies, and with allies in the farm and liberal communities to raise objections to the trial balloons being floated about financing components of the package, which will not be announced until May.

I would like to bring you up to date on those activities.

In the Congress

Sen. Wendell Ford (D-KY) and Rep. Charlie Rose (D-NC) both have raised objections at the White House about the Administration's attacks on tobacco in general, and the continued focus on a "monster sin tax" on tobacco to pay for health care reform. Both expressed concern about their ability to support the President's legislative program in light of these attacks on their key constituencies.

Rose and a delegation of 19 tobacco state representatives met with White House officials yesterday. Ford has been promised a similar meeting; it has not yet been scheduled.

Institute staff prepared briefing booklets on the range of tobacco tax issues and, together with the Washington representatives from your companies, has provided them to Members in advance of these meetings. A copy is enclosed. Selective materials from these booklets are also being provided to Members of the Committee on Ways & Means prior to their annual retreat this weekend.

Staff also is encouraging as many tobacco state Democrats as possible to sign onto a letter to President Clinton drafted by L. F. Payne (D-VA). A copy of the draft letter also is enclosed.

Within the Farm Communities

I had reported previously on the series of Congressional visits planned in February and March by representatives of the tobacco grower groups. Institute staff met with and briefed these organizations prior to their visits and urged them to communicate with their representatives on their opposition to tobacco excise taxes. Growers also are contacting the White House directly, and have asked their representatives for help in that effort.

Congressional meetings that have occurred to date include:

- Twenty-five members from the Kentucky Farm Bureau traveled to Washington in late February and met with each member of the Kentucky Congressional delegation.

- Also in late February, a representative from the Florida Farm Bureau met with 18 of the 23 members of the Florida delegation.

- The Tobacco Growers Information Committee (TGIC) in early March met with virtually every Member of Congress from the southeast. And this week the TGIC is sending a special mailing to its list of 45,000 asking for White House and Congressional contacts.

- Representatives from the Burley and Dark Fired Association met in early March with almost every representative from burley districts in Tennessee, Kentucky and Virginia.

This week Institute representatives are participating in meetings with Tobacco Associates (about 300 farmers and others from flue-cured states) and with 300-400 North Carolina farmers. All are being urged to contact their Congressmen and the White House.

On March 30, representatives from the Virginia Farm Bureau and the Virginia Agribusiness Council will be in Washington to meet with that Congressional delegation.

To broaden our rural outreach beyond the tobacco community, we are working with Women in Farm Economics (WIFE) and the American Farm Bureau Federation, as well as the American Agriculture Movement (AAM). AAM last week released its updated study on the impact of excise taxes on rural Americans; the press conference was well attended and, given current news reports on cigarette excise taxes, focused in large part on tobacco taxes. AAM representatives are personally distributing copies to representatives of the Congressional Rural Caucus.

The Coalition Against Regressive Taxation (CART)

On Monday, March 15, CART will host a breakfast briefing to release to the press its new study by Peat Marwick on the regressivity and job loss impact of increases in selective federal excise taxes. An Institute spokesperson will be on site to handle tobacco-specific questions from the media.

The study notes that families earning less than $30,000 pay twice as much of their income in excise taxes as families earning $30,000-$60,000, and five times as much as families earning more than $60,000. It also notes that a doubling of excise taxes on gasoline, alcohol and tobacco will result in 300,000 jobs lost within those industries (of that total, 50,000 are in tobacco).

Within the States

Institute staff also has contacted state and local legislative groups to encourage them to raise concerns about the loss in state revenue that would occur with a large federal tax increase. Several also are prepared to note the diminishing returns that the states are seeing from "sin taxes." Contacts to date include:

- Chambers of Commerce in the tobacco states.

- Several North Carolina representatives from the League of Cities are reaching out to their colleagues in the southeast to organize a meeting with White House officials. The North Carolina League of Municipalities is assisting.

- The American Legislative Exchange Council (ALEC) is completing work on a comprehensive program for state legislators. We also are working with them to encourage ALEC members to appear at regional hearings being organized by the White House over the next several weeks.

- Institute state lobbyists will be contacting Members with whom they have close relationships during the Easter recess. At the same time, Institute field staff also will work with state and local ratailers and wholesalers to set up home district visits.

- We also are coordinating efforts with your companies to encourage current and former Democratic governors from the southeastern states to register their objections with the White House.

Among the Economists

We have asked consulting economist Bob Tollison to draft for submission to the Wall Street Journal an op-ed analyzing the health care reform debate from the perspective of a public choice economist. Tollison's article would form the basis for a series of op-eds by consulting economists from around the country.

Within the Progressive Tax Communities

We understand that the AFL-CIO has told the Clinton Administration of its strong opposition to any notion of a "monster" tax of $1 or $2 per pack as terribly regressive and one that would have a severe impact on an important segment of its membership.

AFL representatives, along with representatives from Citizen Action and the National Council of Senior Citizens are among the outside "interest groups" who meet with or are consulted by various members of the White House task force; all aggressively seek opportunities to oppose regressive financing options such as excise taxes during these sessions.

Additional specific activities that are in process include:

- Citizens for Tax Justice (CTJ) is analyzing the impact that a health care reform package that includes significant funding from excise taxes would have on the progressive distribution charts that the Administration used to promote its economic package. CTJ Executive Director Bob McIntyre will prepare op-eds and articles promoting his findings and recommending alternative means of financing.

  When the White House finally releases its proposal, CTJ is prepared to conduct the same analysis and promote it to the media.

  McIntyre's comments in response to trial balloons prior to the release of the economic package clearly were noticed by the Administration. We expect his observations on health care to have a similar impact.

- The Economic Policy Institute (EPI), a labor-supported think tank, is completing a first-of-its-kind analysis of the regressivity of the current health care system. In drawing upon newly available government databases, it expects that its methodology will be adopted by the Congressional Budget Office as it conducts its own analysis of the Clinton package.

  Preliminary data, which indicates that the current system is even more unfair to low- and middle-income families than the tax system, is expected to be ready to share with the White House task force by the end of the month. Since task force coordinator Ira Magaziner is a member of EPI's research board, and Labor Secretary Robert Reich was one of EPI's founders, we expect the EPI research to be taken quite seriously at the White House.

  When the study is in final form -- probably sometime later in April -- EPI will release its findings at a national news conference. And when the White House releases its program, EPI will be in a position to evaluate whether the funding components increase -- or decrease -- the regressivity of the health care system and promote its findings in the press.

- Citizen Action is actively supporting Rep. Jim McDermott's (D-WA) legislation that calls for a single-payer health care system. We understand that McDermott last week raised the idea of including tobacco excises as a funding mechanism in his bill; Citizen Action told him they would not support the bill if he did.

The group also is coordinating with each of its state affiliates in Ways & Means and Finance states meetings with Members in the home districts to promote health care reform that focuses on immediate cost containment and broad-based, progressive financing should additional revenues be needed.

- The National Council of Senior Citizens (NCSC) continues to be the block against a Leadership Council on Aging position in support of tobacco excises to pay for health care reform. NCSC will hold its leadership meeting in Washington in two weeks; a new study on the impact of regressive taxation on senior citizens will be released and representatives will visit their Members of Congress to promote its findings and to push for fair, and reliable, financing for health care reform.

- The Bakery, Confectionery & Tobacco Workers (BC&T) have begun petition drives in all manufacturing and leaf processing facilities nationwide. These petitions will be used to reinforce within the AFL the importance of opposing tobacco excise taxes, and in one-on-one meetings with Members of Congress.

You will recall that in my report to you concerning activity prior to the release of the economic package, I noted that a nationwide poll on public attitudes toward economic issues had been fielded and shared with Democratic National Committee Chairman David Wilhelm.

We are launching a similar exercise on the health care issue and expect to have results in time to share with the White House when deliberations begin with the President in early April. We also are using this poll to help us define possible messages for a Consumer Tax Alliance (CTA) advertising campaign should one prove to be necessary once the Clinton package has been announced.

At the January meeting in LaQuinta, we noted a concern that many of the liberal and labor organizations that are members of the CTA may be reluctant to publicly attack a Clinton program when it is publicly announced, and said that we were making efforts to establish a base of individual members for the CTA as well. That exercise is not progressing as well as we would like. At the Management Committee meeting tomorrow we will discuss with your representatives ways in which your companies might be able to help us with this project.

This period in which Administration officials have launched public attacks on the tobacco industry has been an extremely difficult one. While we have had some experience dealing with a steady barrage of negative press in some states -- Massachusetts

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and California, for example -- such attacks from the White House are unprecedented. It was not unexpected given the Clintons' known anti-tobacco sentiments, and since President Clinton already had attacked pharmaceutical and insurance companies and received a great deal of positive press in doing so.

Despite this period of negative publicity, I remain confident that allies with whom we are working and the resources that we have available to us will enable us to make the strongest possible case against any further increase in the federal tobacco excise tax.

Please let me know if you have any questions on any of these matters.

Enclosures

cc: The Members of the Committee of Counsel
The Members of the Management Committee
TI Senior Staff

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The Case Against Consumer Excise Taxes

There has been much talk recently among some members of the Administration and some Members of Congress that tax increases are required to deal not only with the federal budget deficit, but to finance reform of the U.S. health care system. A solution to the nation's fiscal problems must be constructed on the basis of equity: All members of society should pay their fair share.

Raising consumer excise taxes to help reduce the enormous budget deficit or to pay for health care would further burden low- and middle-income families already paying more than their fair share of taxes.

Raising consumer excise taxes is unfair and unwise fiscal policy.

- **Consumer excise taxes are regressive,** hitting hardest those people who are least able to pay -- low- and middle-income families.

- **Consumer excise taxes are arbitrary and unfair,** discriminating against consumers of selected goods and services. Taxes should be distributed equitably, and based on ability to pay.

- **Consumer excise taxes reduce consumer spending power.** As a result, low- and middle-income families in particular have less income available for expenditures and/or savings.

- **Consumer excise taxes reduce economic growth.** According to many economists and business organizations, consumer excise taxes weaken the competitiveness of American business and hinder economic growth. By decreasing the overall sales of selected goods and services, excise taxes reduce available funds for capital investment.

- **Increased consumer excise taxes would signal a reverse in the momentum to restore equity to the federal tax system.** Gains that low- and middle-income families achieved through tax reforms in the mid-1980s and recent efforts by the Clinton administration to move toward a tax system that relieves the middle class tax burden and makes the wealthy and corporations pay their fair share will be undermined.

- **Raising consumer excise taxes is bad tax policy.** Financing progressive government through regressive means forces a few Americans to shoulder the tax burden of the entire society.

Who Pays Consumer Excise Taxes?

- Individuals -- not corporations -- pay consumer excise taxes.

- Anyone who buys gasoline, alcohol or tobacco products pays a consumer excise tax.

- A 1987 Congressional Budget Office study states that excise taxes are among the most regressive of all taxes, and calls tobacco taxes the "most regressive of all."

- Excise taxes are not levied based on one's ability to pay. Thus, they adversely impact poor and middle-income individuals as well as the elderly.

- Consumer excise taxes particularly hurt Blacks, Hispanics and other minorities as these groups have higher levels of poverty and unemployment, and thus are more vulnerable to regressive taxes.

- Rural Americans pay a significantly higher percentage of their income in consumer excise taxes than do residents in urban areas. Specifically, rural Americans shoulder a 44 percent higher tax burden in tobacco excises alone. (Ekelund and Long, Excise Taxes and the Rural Taxpayer: Losing Ground in the '80s and '90s?, commissioned by the American Agriculture Movement, March 1993.)

- Working women also bear a greater tax burden than others. With the rise in women joining the workforce, and rising number of families headed by women, increasing numbers of women pay more than their fair share of taxes. (Lyons and Colvin, Women and Children First: An Analysis of Trends in Federal Tax Policy, prepared for the Coalition of Labor Union Women, May 1990.)

Tobacco Taxes and Inflation

Cigarettes are the most heavily taxed consumer product in America. Over the last ten years, cigarette excise taxes have far exceeded the rate of inflation.

- Cigarette excises have risen by 133 percent since 1982 -- from 22.1 cents per pack in 1982 to 51.5 cents per pack in 1990. By contrast, the Consumer Price Index rose by only 47 percent during that same period.

- At the state and local level, the average cigarette tax (weighted) has risen 95 percent, from 14.1 cents per pack in 1982 to 27.5 cents per pack in 1992.

- In 1985, no state cigarette excise tax exceeded 30 cents per pack. Since that time, 18 states have increased the cigarette excise tax rate to 30 cents or more per pack.

- In 1992 alone, cigarette excise taxes increased substantially in eight states. For example, in Massachusetts the cigarette excise jumped by 100 percent, in Maryland by 125 percent and in the District of Columbia by 66 percent.

- Since 1982, the federal cigarette excise tax has increased three different times. At the same time, the states increased their cigarette tax on 121 separate occasions. And in the last five years alone, localities increased the cigarette excise on approximately 100 occasions.

- In 1980, the average two-smoker family paid approximately $232 in total cigarette excise taxes per annum. By 1991, this figure rose to $548 per year, an increase of 136 percent. The two-family cigarette tax bill rose from 1.1 percent of income in 1980 to 1.5 percent of income in 1991, an increase of 36 percent.

- According to the Congressional Budget Office, an increase in the tax on tobacco would be the most regressive of levies of its kind. As a percentage of income, tobacco excises hit low- and middle-income individuals the hardest. Indexing cigarette excises for inflation would make these taxes even <u>more</u> regressive over time, compounding the heavy tax burden already borne by smokers.

Effects of Doubling
The Federal Excise on Cigarettes

- In 1990, approximately 681,300 workers were employed by the tobacco industry. These workers earned over $16 billion. The tobacco industry contributed to the federal government over $6.55 billion in non-sales related taxes: $2.75 billion in personal income taxes, $1.9 billion in corporate taxes, and $1.9 billion in FICA. The tobacco industry contributed to the states $669.5 million in personal income taxes and $459.1 in corporate taxes.

- Tobacco industry employee spending affects the well-being of other industries. In 1990, payments made by the tobacco industry resulted in the employment of 1.6 million workers in non-related industries. These workers earned $50.5 billion. The tobacco industry contributed approximately $51.5 billion to the GNP.

- If the federal excise tax on cigarettes is doubled from 24 cents to 48 cents per pack, retailers could lose $2.2 billion in the sale of cigarettes alone. A $2.2 billion decrease in sales would result in an estimated $441 million decline in income to retailers.

- A federal cigarette excise tax increase would result in a dramatic decrease in employment in the tobacco industry -- approximately 34,000 jobs would be lost. This decline would, in turn, cause a marked decrease in income. Some states would be more adversely impacted due to intense tobacco industry activity. Nearly 14,000 jobs would be lost in Kentucky, North Carolina, South Carolina, Virginia and Tennessee.

- State earnings from cigarette excise taxes would be negatively impacted. Probable losses in state excises taxes are estimated to be nearly $305 million. Sales tax revenues would also decline.

Consumer Excise Taxes and Diminishing Returns

Over the last ten years, state and local governments have increased consumer excise taxes hundreds of times. Lawmakers are now finding that a tax revenue source which provided stop-gap relief for states grappling with budget deficits is not a panacea for their fiscal woes. In fact, they are learning the reality of falling revenues from this "popular," punitive tax.

Economists agree that the well is going dry. Through the 1980s, the percentage of revenues generated by consumer excise taxes dropped steadily. A study by the Council of State Governments (CSG) confirms this point. The CSG calls excise taxes on tobacco and alcohol a "worn-out tax source," and urges policymakers to look elsewhere for revenues to fund a range of programs and services. (Source: Council of State Governments report due to be released March 1993.)

While it may be politically easy for some federal lawmakers to suggest increasing consumer excise taxes on products like cigarettes, states and localities are learning the painful realities of a relying on a shrinking revenue source. They have reached the point of diminishing returns of this source that is, over time, unstable at best.

Taxes to grow with

The fiscal rewards of sin taxes are fleeting. States looking for growth are turning elsewhere.

by Doug Olberding

States looking for cash may be fooling themselves by turning to tried and true taxes, a new study by The Council of State Governments reveals.

Old standbys like the cigarette, motor fuels and traditional sales tax are likely to leave states spinning their wheels when it comes to generating future revenue growth, the study of state tax revenues from 1977 to 1990 shows.

Overreliance on worn-out tax sources are a losing proposition for states that must pay for rising health care, prison and other costs, said Merl Hackbart, senior fellow at the Council. Driven by federal mandates and medical inflation, state Medicaid costs are outpacing state revenue growth. Hackbart said, "Revenues must at least keep pace with personal income growth if states hope to keep this under control."

One tax that can keep pace is largely going untapped. Until recently many states have exempted such areas as advertising, janitorial, secretarial and legal services from the general sales tax. The Council's study supports arguments for broadening the sales tax base to services such as these.

The Council analyzed state revenue data from the U.S. Census Bureau to find which tax sources best kept pace with personal income growth. The study measured each tax source's elasticity — its responsiveness to changes in personal income. This gives a measure of the fiscal health of a state by comparing state revenue growth to the growing wealth of the state's population.

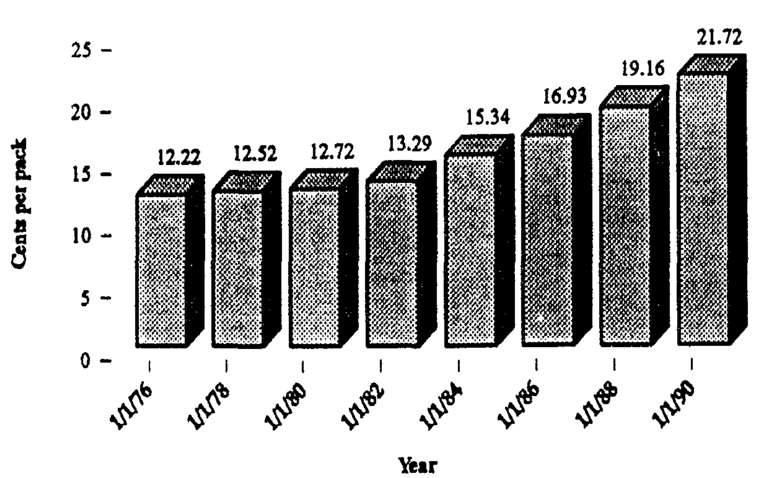
The Council calculated the average elasticity for each state and then adjusted the result to control for one-time hikes in revenues when the rate first changed.

According to the study, states that increased taxes on cigarettes and other tobacco products saw no corresponding increase in revenue as personal income rose. Instead, in 20 states revenue from the tobacco excise tax actually decreased as personal income increased.

This can be explained, in part, by the decreasing demand for tobacco products. Since the surgeon general's 1964 report citing the health problems caused by cigarette smoking, the percentage of smokers in the United States has declined from 41 percent to about 25 percent today, said Carey O'Connor of the National Coalition on Smoking or Health.

Doug Olberding is a research associate for The State Policy and Innovations group at The Council of State Governments.

Table 1: Average cigarette tax rate for all states — 1976 to 1990*



*Does not include Hawaii, which taxes cigarettes as a percent of wholesale price.

Source: The Book of the States, vols. 1976-77 to 1990-91

Table 1 shows the average state tax rate increased from 13 cents per pack in 1976 to 23 cents per pack in 1990 with most of the increase occurring since 1984.

States that raise cigarette taxes may see a one-time revenue spurt, but in the long run cigarette tax revenues will fail to keep pace with increases in personal income as rates rise and demand falls. For example, when Canada raised its national and provincial excise rates to as high as $5 a pack, smoking rates plummeted to below 15 percent, said O'Connor.

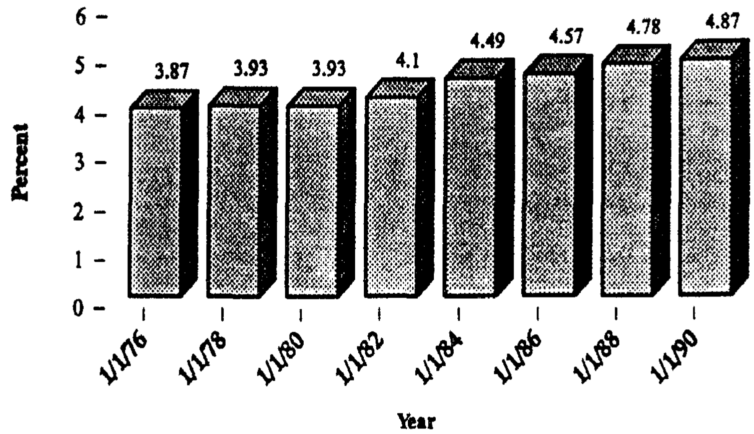
Another poor prospect for long-term revenue growth is the motor fuels tax. Revenue from motor fuels taxes increased at a much slower rate than personal income from 1977.

As Table 2 illustrates, states nearly doubled the cents-per-gallon tax from 1976 to 1990 to raise more revenue for highway construction and maintenance.

All states except New York and Alaska have raised motor fuel excise rates since 1976 for an average rate increase of 7.74 cents per gallon. Higher gas taxes combined with less gas usage by more fuel-efficient cars may have hurt gas tax revenue growth.

But the biggest threat to states that hope to raise revenue by increasing their gasoline tax rates is a proposal to increase the federal gasoline tax as much as 50 cents a gallon over the next few years. If this occurs, states may have to look for other ways to pay for highway construction and maintenance.

Table 3: Average sales tax rate for states with general sales tax — 1976 to 1990*



*Alaska, Delaware, Montana, New Hampshire and Oregon do not have a general sales tax.

Source: The Book of the States, vols. 1976-77 to 1990-91

Of the three revenue sources in this study, general sales tax is clearly the most responsive to changes in personal income.

A total of 22 states have an average adjusted elasticity equal to or greater than one, indicating revenue from sales tax grows steadily with taxpayers' income. The average rate for states with a general sales tax increased only 1 percent from 1976 to 1990 as indicated in Table 3.

Most states still rely heavily on retail sales taxes on tangible goods for a large portion of their revenue. From 1977 to 1990, states received about one-fifth of their general fund revenue from the general sales tax.

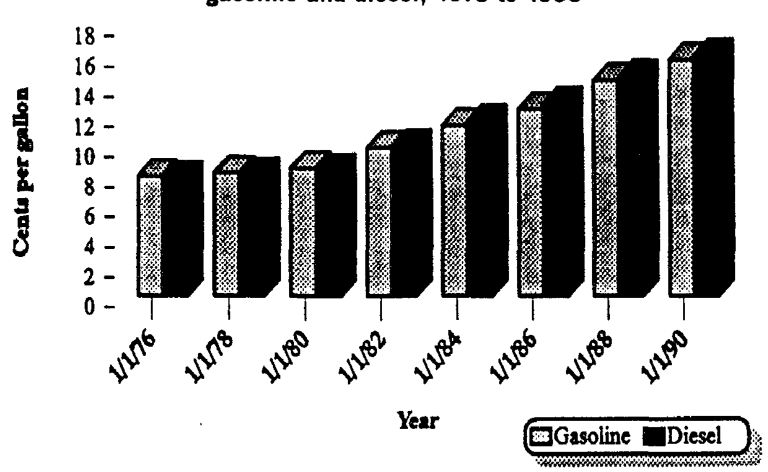
However, as Table 5 shows, the average elasticity of general sales taxes in all states has been declining steadily since about 1984. Many economists argue that this problem could be fixed if states would broaden their sales tax base by including services.

"Much of the activity of the early 1980s focused on raising rates," said William Duncombe of the Metropolitan Studies Program at Syracuse University. "But since 1987 there has been a concerted effort to expand service taxation."

For most states, services remain an untapped source with more revenue potential than increasing tax rates on less responsive sources.

Debate over taxing services has heated up as the U.S. economy has become more service-oriented. Spending on services has increased steadily since the 1960s while spending on tangible goods has declined, according to the U.S. Commerce Department. In the third quarter of 1992, personal consumption expenditures for tangible goods were at 46

Table 2: Average motor fuels tax rate for all states — gasoline and diesel, 1976 to 1990*



*Some states tax gasohol and liquified petroleum at separate rates.

Source: The Book of the States, vols. 1976-77 to 1990-91

Table 4: Rank order of adjusted elasticity for selected state revenue sources — 1977 to 1990

Rank	*State*	*General sales tax adjusted elasticity*	*State*	*Tobacco products tax adjusted elasticity*	*State*	*Motor fuels tax adjusted elasticity*
1	Iowa	2.29	Idaho	1.43	Louisiana	3.28
2	Louisiana	2.07	Wyoming	0.89	Nevada	1.69
3	Wyoming	1.72	South Dakota	0.81	Delaware	1.52
4	South Dakota	1.39	Hawaii	0.74	Tennessee	1.21
5	Ohio	1.26	Illinois	0.58	Iowa	1.10
6	Massachusetts	1.20	Utah	0.56	West Virginia	0.97
7	Florida	1.19	Rhode Island	0.52	Oregon	0.88
8	Tennessee	1.18	California	0.48	Virginia	0.85
9	Pennsylvania	1.17	Washington	0.46	Missouri	0.84
10	Washington	1.17	Kansas	0.46	Utah	0.82
11	Connecticut	1.16	Nebraska	0.26	Ohio	0.79
12	Texas	1.15	Wisconsin	0.21	Vermont	0.76
13	Arkansas	1.14	Maine	0.19	Oklahoma	0.75
14	North Carolina	1.09	Arkansas	0.17	Wisconsin	0.71
15	Hawaii	1.09	Nevada	0.16	Florida	0.64
16	Kentucky	1.01	Texas	0.14	New Mexico	0.64
17	Rhode Island	1.01	Florida	0.14	South Dakota	0.63
18	New York	1.01	Mississippi	0.14	Connecticut	0.61
19	Michigan	1.01	Iowa	0.11	Washington	0.61
20	Wisconsin	1.00	Tennessee	0.10	South Carolina	0.60
21	Minnesota	1.00	Georgia	0.10	Arizona	0.60
22	Idaho	0.98	Connecticut	0.09	Minnesota	0.59
23	Virginia	0.96	Alabama	0.07	Kansas	0.56
24	North Dakota	0.96	Montana	0.06	Maine	0.56
25	New Jersey	0.94	Arizona	0.03	Mississippi	0.53
26	Nevada	0.94	Oregon	0.02	Alabama	0.51
27	South Carolina	0.94	New Mexico	0.01	Texas	0.48
28	Maine	0.94	Colorado	0.01	Nebraska	0.47
29	Vermont	0.93	South Carolina	0.01	Montana	0.46
30	Georgia	0.92	Missouri	0.00	Georgia	0.45
31	California	0.91	Vermont	−0.06	Indiana	0.41
32	Missouri	0.90	Delaware	−0.06	Arkansas	0.39
33	Maryland	0.89	Virginia	−0.09	Wyoming	0.36
34	Nebraska	0.88	New Hampshire	−0.09	Idaho	0.34
35	Alabama	0.83	New Jersey	−0.11	New Jersey	0.33
36	Arizona	0.83	Ohio	−0.13	Colorado	0.33
37	Indiana	0.83	Indiana	−0.15	Rhode Island	0.33
38	New Mexico	0.82	North Dakota	−0.16	California	0.26
39	Mississippi	0.81	Pennsylvania	−0.18	Hawaii	0.25
40	Kansas	0.81	New York	−0.19	North Carolina	0.23
41	Illinois	0.70	Massachusetts	−0.21	North Dakota	0.23
42	Utah	0.68	North Carolina	−0.22	Maryland	0.21
43	Colorado	0.47	Maryland	−0.25	Pennsylvania	0.18
44	West Virginia	−0.35	Minnesota	−0.36	New Hampshire	0.16
45	Oklahoma	−2.05	Kentucky	−0.38	Massachusetts	0.16
46	Alaska		West Virginia	−0.42	Illinois	0.11
47	Delaware	*No*	Michigan	−0.64	Michigan	0.10
48	Montana	*sales*	Oklahoma	−0.85	Kentucky	0.09
49	New Hampshire	*tax*	Alaska	−1.28	New York	−0.17
50	Oregon		Louisiana	−1.39	Alaska	−15.70
Average		**0.95**		**0.03**		**0.27**

Table 4 summarizes the results for general sales tax, tobacco products tax and motor fuels tax. An elasticity coefficient of 1.0 means revenue from the tax increased at the same rate as personal income from 1977 to 1990. A coefficient greater than 1.0 means tax revenue increased more than personal income, indicating an elastic revenue source. And a coefficient less than 1.0 indicates revenue rose less than the increase in personal income.

Taxes to grow with

from page 12

percent while expenditures for services reached 54 percent.

But taxing services can be difficult politically and practically. In Massachusetts and Florida, newly enacted service tax packages were repealed in waves of anti-tax sentiment.

Massachusetts in 1990 passed broad-based service tax legislation aimed at utilities, professional, personal and business services, expanding the sales tax to 59 new services. However, the reform was short-lived, as Gov. William Weld pushed a repeal through the Legislature in March 1991. Only the utility taxes and a few select business service taxes were spared.

State tax systems have lagged behind the structural changes in the economy. Only recently have states initiated changes in their tax structure to reflect the service-oriented economy.

Table 5: General Sales Tax

Year	*Average Elasticity*
1984	1.57
1985	1.59
1986	1.03
1987	0.96
1988	0.73
1989	0.80
1990	0.69

According to Ron Alt of the Federation of Tax Administrators, Pennsylvania, Massachusetts and New York have enacted the newest service taxes in the last two years. "Even though Pennsylvania extended the sales tax to cover 24 new services they're really just playing catch-up with the rest of the country."

Of the 160 services tracked by the FTA, the average state taxes 53. Pennsylvania now taxes 61 services. Massachusetts added 18 new services to its general sales tax even after the repeal but still ranks among the lowest in the nation with only 20. The leaders are New Mexico and Hawaii, which tax 155, followed by Delaware at 141 and South Dakota at 130.

It is likely more states will add services to their sales tax base. The FTA expects more states to impose taxes on business services such as advertising, employment agency, security, janitorial and secretarial services. The most widely taxed business services are printing and photo finishing, taxed by 44 states.

Duncombe said states will move incrementally towards applying the sales tax to services rather than trying for wholesale tax reforms or massive changes like those attempted unsuccessfully in Florida and Massachusetts.

And as the Council study shows, states that expand their sales tax to services are positioning themselves to keep pace with growth in personal income and demand for government services. □

Power to the powerless

from page 11

The Louisiana House is already leaning to the right, said Rep. Melvin "Kip" Holden, a member of the black caucus. "When they make black districts, it leaves whites with little or no black representation."

As a result, Holden said, some white legislators are more cautious about voting with the black caucus, because they don't want to offend white voters. "I can see the negative impact of having more black legislators vs. less black people in a district," Holden said.

In 1992, blacks increased their numbers in the Louisiana House from 14 to 24 of 105 members and in the 39-member Senate from five to eight. That gives the black caucus more power, but there's disagreement on how much more. Even though the 24 members of the black caucus are a sizable voting block, their numbers are greater than their influence, said Bruneau.

The black caucus didn't wield as much influence as it might have in 1992's session because so many members were new, said Holden. "We were still feeling out where we stood on issues," he said. Most members of the caucus, he said, favor the interests of minorities, women, low- and middle-class people and labor.

In special court-ordered November elections, the number of black legislators in the 122-member Mississippi House increased from 21 to 32. That's a significant increase, but not as radical as it appears because black legislators have been steadily increasing over the last decade, said House Speaker Tim Ford.

The turning point came in 1984 when a coalition of black and white legislators revolted against the then-speaker. The coalition failed, but came back to oust the speaker in 1987. Since then, black legislators have been named to powerful committees like ways and means, said Rep. Barney Schoby.

Ford, a white who was elected speaker in 1992 with black support, believes that increased black involvement has been good for the House. "It's beneficial in the fact that minority voices are regularly represented on factors before the Legislature," Ford said.

There's little racial polarization on legislative issues, said Ford. "We're divided more by urban and rural and liberal and conservative."

Just as Latino legislators feel the responsibility of representing their ethnic group, blacks feel they can more fairly represent the black population, said Rep. Charles Young, a leader in the black caucus. He expects the Mississippi black caucus to have greater influence on the budget process and bring more equity to division of tax revenues.

Black members want more attention to education and job development to help those in poverty. "Until we move the bottom of the state, we haven't moved the state," Young said. □

Debunking the "Social Costs" of Smoking

Some people claim that smoking is not strictly a personal choice, but imposes external "social costs" on our nation, and that smokers should compensate by paying higher taxes.

- In economics, "social costs" are cases in which the activity of one group of individuals imposes significant cost on another group. Environmental pollution, for example, in which a company discharges waste products into a community water supply, constitutes a "social cost."

  Private costs, in contrast, are activities on the part of one individual that do not, generally, impose costs on others. In these cases, the costs are borne by the individuals who undertake the activity directly. Smoking falls into this category.

- Almost one-third of medical expenses related to any illness or injury are private costs, paid directly by the individual. Private insurance companies and government-financed health care programs usually cover the rest. Health insurers who have established different premium rates for smokers and nonsmokers have done so without benefit of actuarial studies to support these rate differentials. The 1989 Surgeon General's Report acknowledged that "there is little supportive actuarial evidence that nonsmokers incur fewer claims."

- Funding for government programs such as Medicaid and Medicare comes from all taxpayers, smokers and nonsmokers alike. Contributing to such programs is considered beneficial for all participants and, like any social insurance program, the benefit from some taxpayers will be greater in value than their actual contribution.

  It is difficult to determine who gains and who loses under such a system -- so difficult, in fact, that even a staff report from the Office of Technology Assessment on the claimed "costs" of smoking declined to address this issue, calling it too "complex."

(over)

- However, if these government programs were being overused by smokers, as the American Medical Association has recently claimed, one could argue that smokers were creating additional costs for others. To the contrary, however, smokers as a group are very much underrepresented in the population groups served by these programs.

  Forty-five percent of those served by Medicaid, for example, are children; 15 percent of Medicaid beneficiaries and more than 90 percent of Medicare beneficiaries are over age 65 -- an age group in which only 16 percent are smokers.

- Nevertheless, an American Medical Association report released on February 23 claimed that smokers "cost" the health care system $22 billion annually. Of that total, the AMA claims that the government spent $4.2 billion in the Medicaid and Medicare programs on tobacco-related illnesses.

- Smokers already pay $11.3 billion in federal, state and local excise taxes and another $2 billion in additional sales taxes, for a total of $13.3 billion.

  However, given the enormous contribution that smokers already make to government health care financing -- in excise and sales taxes, personal income and Social Security taxes and other fees, there is ample reason to suggest that smokers are subsidizing nonsmokers in these programs -- not the other way around.

Consumer Excise Taxes and Rural Americans

Consumer excise taxes place a greater burden on rural taxpayers than on their urban counterparts. Many low- and middle-income families reside in rural areas. These rural households had $23,841 in annual earnings in 1989, compared to $32,478 for urban households.

A study commissioned by the American Agriculture Movement study found that during the 1980s the situation for rural Americans worsened. On average, in 1989, rural households had a 34 percent greater consumer excise tax burden compared to urban Americans, up by more than 10 percent from 1984.

When specific items were examined, the study found that rural families, including farmers, have an excise burden that is:

- 52 percent higher on gasoline and motor fuel;
- 44 percent higher on tobacco products;
- 26 percent higher on utilities;
- 19 percent higher on insurance; and
- 8 percent higher on all other excises.

As the nation's farmers and rural families struggle to survive, higher consumer excise taxes place a greater burden on the backs of those least able to afford it.

Excise Taxes and Working Women

More and more women are heading low- and middle-income American households. Although the number of working women has increased to 56 million, or 45.2 percent of the current workforce, their economic condition has not improved.

- Women now represent almost two-thirds of all adults living in households with incomes below $10,000;
- Women currently hold 60 percent of the minimum wage jobs in the United States; and
- The poverty rate for female-headed households is five times greater than for families with both a husband and wife present.

As a result, more and more women are being unfairly burdened by the regressive nature of consumer excise taxes.

A recent study commissioned by the Coalition of Labor Union Women indicates that women bear a disproportionate share of America's tax burden under the current federal tax system.

According to the study, a single mother-headed household with a median income of $8,360 a year pays 14 times as large a share of its income on consumer excise taxes than does a family earning almost $100,000 annually. Such regressive and unfair tax policies clearly discriminate against families headed by women.

Consumer Excise Taxes and African-Americans

African-Americans, based on their share of the national income, bear a much higher consumer excise tax burden than other Americans.

While only 11.3 percent of all families are African-American, fully 36 percent of black families are in the lowest income quintile.

A recent study commissioned by the A. Philip Randolph Institute, "Fair Taxes: Still a Dream for African-Americans," concluded that federal tax policy over the last decade has increased the burden of taxation on those least able to pay, while cutting the tax burden on the wealthy.

Specifically, the study found that:

- "An African-American family, with both parents working, two children and an income of $25,000, will pay an almost six times larger share of its income in federal consumer excise taxes than a family making $250,000 per year;" and

- federal payroll taxes will take an almost four times greater share of income from an African-American, female-headed family making $14,000 than from a family making $250,000 per year."

Further, the study found that for the poorest 20 percent of the population, compared to the richest one percent of Americans, the situation worsened in the 1980s, with the lowest income group having 10 times greater a share of their income going to consumer excise taxes in 1992, up from seven times higher in 1980.

Consumer Excise Taxes, Hispanics and Health Care Reform

Hispanics are the fastest growing segment of the American population. According to the 1990 census, Hispanics will be the largest minority in the U.S. by the year 2020.

At the same time, Hispanic family income as a percentage of white family income declined in the 1980s, falling from 73.1 percent in 1980 to just 71.5 percent in 1990. As a result, consumer excise taxes take a much larger share of income from Hispanics than from white Americans.

A recent study by the Labor Council for Latin American Advancement (LCLAA), "Hispanics and Taxes: A Study in Inequality," found that compared to the wealthiest households in our society (those with incomes over $250,000 per year), a Hispanic family of four with a median income of $18,571 in 1990 had a tax burden:

- six times greater on gasoline;
- 14 times greater on tobacco products;
- seven times higher on telephone services; and
- six times greater on beer and wine.

In another study on health insurance and Hispanics, jointly sponsored by LCLAA and the National Council of La Raza, researchers found that 75 percent of Hispanic men and 90 percent of Hispanic women had incomes below $25,000 annually. Based on these findings, the study concluded that the impact of rising insurance premiums and out-of-pocket costs were particularly unfair for Hispanics and the organizations issued a set of principles for health care reform, which included a commitment to progressive financing.

Indexing the Cigarette Excise Tax to Inflation

An automatic increase -- whether in spending for government services or in taxes to raise revenue for such spending -- is bad public policy because it allows lawmakers to evade their responsibility to review carefully and justify all changes in spending and taxation.

- Democrats who are trying to shed their "tax and spend" label should be particularly cautious when considering proposals to index cigarette excise taxes -- or any other tax -- to inflation. Indexing is simply another license to "tax and spend" without having to take a public vote on the issue and the public knows that. Just as excise taxes are hidden taxes because they are buried in the price of an item, indexing excise taxes is a hidden tax increase because lawmakers do not have to vote for the tax to take effect.

- Indexing the federal cigarette excise tax to inflation will not deter those who want to use the tax system to accomplish social policy from continuing to offer other proposals for additional cigarette excise taxes, including proposals to earmark the revenues to spending on "good" programs.

- The concept of indexing is fundamentally flawed. A rise in the overall cost of living does not automatically give the government license to increase the cost of all goods and services -- and the revenues to fund those services -- by a like amount. As corporate America tightens its belt, Americans have every right to expect the federal government, too, to increase efficiency and improve productivity, and deliver the same goods and services for fewer tax dollars.

Tobacco "User Fees": A Duck In Fiscal Feathers

The anti-smoking lobby and some lawmakers have urged levying excise tax hikes on consumers who purchase cigarettes and earmarking the resulting revenue to help defray the nation's deficit or to finance health care reform. Many call these taxes "user fees" to minimize voter opposition.

But a tax on consumers who purchase tobacco products is just that: a tax.

A user fee is a charge imposed exclusively on those who benefit from a particular program, usually a government service. For example, the entry fee for a national park is considered a user fee because it is levied only on those who wish to use amenities offered by the park.

The notion of consumer excise taxes as "user fees" has been raised during previous Administrations. As former OMB Director Richard Darman stated at Senate Finance Committee hearings February 12, 1990, "If the cigarette excise tax were to be justified as a "user fee," you would have to dedicate the revenue to ... something that was going to actually benefit the cigarette smokers. That's pretty unlikely."

To impose a "user fee" or excise tax on tobacco and reserve the revenues to pay a debt that was incurred by the nation as a whole -- or to pay for health care services and programs from which all citizens will derive benefit -- is an unfair and discriminatory tax policy.

Earmarking Consumer Excise Taxes
Unsound, Unwise and Unfair Tax Policy

Americans accept that as wage-earners, property owners or consumers, a portion of what we earn, own or buy will go into the government's till. In light of the current fiscal climate, individuals seem eager to pay their fair share for the sake of future generations. We expect these taxes to be fair -- and not single out certain Americans to contribute more than their portion. We also expect them to be put the best possible use.

In some cases, government targets specific products, and the people who buy them, for taxation and "earmark" the revenues to pay for programs and services that benefit the general public. Although various types of taxes have been earmarked for public projects, tobacco products continue to be frequent targets. Advocates of such taxes want to make smokers society's debt-payer, continually paying the bill for programs and services that benefit smokers and nonsmokers alike. Earmarking consumer excise taxes is unsound, unwise and unfair tax policy for several reasons.

- **Earmarking means a less competitive and more inflexible budgeting procedure.** Under general funding, most interest groups have to compete against each other for a piece of the budget "pie." Earmarking, by contrast, shields favored, special interests from competition from groups who must vie for general fund revenues. It also ties lawmakers' hands by removing a source of revenue that could potentially be used for general funding purposes, rendering the revenue base inflexible.

- **Earmarking often violates accepted principles of taxation.** Two widely accepted principles of taxation are the ability to pay and benefit principles of taxation. Increasing the federal tobacco excise tax to pay for the national debt or to finance health care reform fails both tests. The cigarette excise tax is extremely regressive, taking a much higher percentage of income from low- and middle-income families than from the wealthy.

- **Consumer excise taxes are an unreliable source of earmarked funds.** Hitching a federal cigarette excise tax increase to health care reform is like funding a program with a voracious appetite with a sinking revenue base. If cigarette sales continue to slip with the passage of time, financing the ever expanding heath care system would confront serious funding problems. Logic and fiscal prudence would dictate that funding come from a more reliable tax base.

- **It is unfair to ask one group of taxpayers -- smokers -- shoulder the burden of deficit reduction or health care reform.** In a progressive system, the tax burden should be borne by all, not just one group of taxpayers.

Earned Income Tax Credit as a Means of Reducing the Regressive Impact of Consumer Excise Taxes

Increasing the earned income tax credit (EITC) would do little to cushion the heavy financial burden that would result from even a slight increase in consumer excise taxes because:

- **It provides relief for only a limited number of individuals.** The credit benefits only wage earners with dependents, leaving out the working poor with no children, and the large number of low-income individuals who are not wage earners. Yet both of these groups still pay consumer excise taxes.

- **It doesn't apply to hundreds of thousands of low-income wage earners who are too poor to file a tax return.** Although some of these individuals are eligible, they cannot receive the credit unless they file. Regardless of whether they file, however, they still bear the brunt of higher consumer excise taxes.

- **It does nothing to assist senior citizens who rely on Social Security and other non-wage sources of income.** The elderly pay consumer excise taxes as well.

- **It does not help middle-income and low-income families who also pay a greater consumer excise tax burden.** Under current law, families with incomes above $12,200 in 1992 begin having the value of their credit reduced for every dollar earned above this amount until it is totally eliminated once their income reaches $23,050.

- **To the extent an EITC could be effective in mitigating the tax burden for low- and middle-income persons it would cost the government more money and defeat the whole purpose of raising excise taxes in the first place.**

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ECONOMIC LOSSES TO THE U.S.ECONOMY FROM DOUBLING THE FEDERAL CIGARETTE TAX FROM 24 CENTS TO 48 CENTS PER PACK

Doubling the federal cigarette tax would have a significant impact on the U.S. economy. Price Waterhouse estimates, for example, that the tobacco industry creates over 680,000 jobs. These include jobs in tobacco growing, manufacturing, wholesaling, retailing and supplier industries. Over 34,000 of these jobs would be lost if the federal cigarette tax were doubled. The payroll lost by these workers would amount to about $809 million.

In addition, the income created the tobacco sector is re-spent in the U.S. economy which stimulates many other sectors. Price Waterhouse estimates that over 1,600,000 U.S. jobs are created due to this expenditure-induced or ripple effect. Doubling the cigarette tax would lead to a loss of 80,050 expenditure induced jobs.

All together, the tax hike would lead to a loss of more than 114,000 U.S. jobs. State governments will suffer as well since the state cigarette tax base would dwindle. State cigarette tax revenues are projected to fall by more than $300 million.

JOB LOSSES

SECTOR	LOSS IN PAYROLL	EMPLOYMENT LOSS (JOBS)
Tobacco Growing	$49,590,000	8,140
Tobacco Manufacturing	$130,100,000	2,526
Tobacco Wholesale Trade	$75,100,000	2,320
Tobacco Retail Trade	$128,510,000	8,340
Tobacco Sector Suppliers	$425,300,000	12,747
TOTAL TOBACCO SECTOR	$808,700,000	34,067
EXPENDITURE INDUCED SECTORS	$2,526,900,000	80,050
TOTAL LOSS	$3,335,600,000	114,117

ECONOMIC LOSSES TO NORTH CAROLINA FROM DOUBLING THE FEDERAL CIGARETTE TAX FROM 24 CENTS TO 48 CENTS PER PACK

Doubling the federal cigarette tax would have a devastating impact on North Carolina's economy. Tobacco growers, for example, would suffer substantial economic hardship. It is estimated that nearly 633 million pounds of flue-cured tobacco and 17 million pounds of burley will be harvested this year. However, tobacco leaf sales will fall by 8% with a doubling of the cigarette tax. This means that flue-cured sales will fall by about $91 million per year and burley sales will tumble by $2.5 million per year.

Price Waterhouse estimates that over 85,000 North Carolinians have jobs in tobacco growing and manufacturing. Over 4,250 of these jobs would be lost if the federal cigarette tax were doubled. The total employment loss in sectors linked to tobacco production and retailing would amount to 5,281 jobs.

In addition, the income created in North Carolina's tobacco sector is re-spent in the North Carolina economy which stimulates many other sectors. Price Waterhouse estimates that over 154,000 NC jobs are created due to this expenditure-induced or ripple effect. Doubling the cigarette tax would lead to a loss of 7,735 expenditure induced jobs.

All together, the tax hike would lead to a loss of 13,016 NC jobs. Finally, dwindling cigarette sales will also mean less state cigarette tax revenues. These revenues will fall by about $2 million.

JOB LOSSES

SECTOR	LOSS IN PAYROLL	EMPLOYMENT LOSS (JOBS)
Tobacco Growing	$19,500,000	3,185
Tobacco Manufacturing	$54,266,600	1,093
Tobacco Wholesale Trade	$3,841,000	73
Tobacco Retail Trade	$3,277,950	231
Tobacco Sector Suppliers	$22,300,000	698
TOTAL TOBACCO SECTOR	$103,184,000	5,281
EXPENDITURE INDUCED SECTORS	$184,100,000	7,735
TOTAL LOSS	$287,250,000	13,016

ECONOMIC LOSSES TO KENTUCKY FROM DOUBLING THE FEDERAL CIGARETTE TAX FROM 24 CENTS TO 48 CENTS PER PACK

Doubling the federal cigarette tax would have a devastating impact on Kentucky's economy. Tobacco growers, for example, would suffer substantial economic hardship. It is estimated that nearly 490 million pounds of burley tobacco was harvested in 1992. However, tobacco leaf sales will fall by 8% with a doubling of the cigarette tax. This means that burley sales will fall by about $71 million.

Price Waterhouse estimates that over 50,000 Kentucky residents have jobs in tobacco growing and manufacturing. Over 2,500 of these jobs would be lost if the federal cigarette tax were doubled. The total employment loss in sectors linked to tobacco production and retailing would amount to more than 3,000 jobs.

In addition, the income created in Kentucky's tobacco sector is re-spent in the Kentucky economy which stimulates many other sectors. Price Waterhouse estimates that over 75,891 KY jobs are created due to this expenditure-induced or ripple effect. Doubling the cigarette tax would lead to a loss of more than 3,700 expenditure induced jobs.

All together, the tax hike would lead to a loss of more than 6,800 KY jobs. Finally, dwindling cigarette sales will also mean less state cigarette tax revenues. These revenues will fall by about $1 million.

ECONOMIC LOSSES

SECTOR	LOSS IN PAYROLL	EMPLOYMENT LOSS (JOBS)
Tobacco Growing	$13,177,000	2,163
Tobacco Manufacturing	$17,836,000	351
Tobacco Wholesale Trade	$1,270,000	47
Tobacco Retail Trade	$2,100,000	155
Tobacco Sector Suppliers	$11,854,000	368
TOTAL TOBACCO SECTOR	$46,137,000	3,082
EXPENDITURE INDUCED SECTORS	$84,346,000	3,795
TOTAL LOSS	$130,483,000	6,877

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ECONOMIC LOSSES TO VIRGINIA FROM DOUBLING THE FEDERAL CIGARETTE TAX FROM 24 CENTS TO 48 CENTS PER PACK

Doubling the federal cigarette tax would have a devastating impact on Virginia's economy. Tobacco growers, for example, would suffer substantial economic hardship. It is estimated that nearly 110 million pounds of tobacco was harvested in 1992. However, tobacco leaf sales will fall by 8% with a doubling of the cigarette tax. This means that VA tobacco sales will fall by about $16 million.

Price Waterhouse estimates that over 24,000 Virginia residents have jobs in tobacco growing and manufacturing. Over 1,200 of these jobs would be lost if the federal cigarette tax were doubled. The total employment loss in sectors linked to tobacco production and retailing would amount to more than 2,200 jobs.

In addition, the income created in Virginia's tobacco sector is re-spent in the Virginia economy which stimulates many other sectors. Price Waterhouse estimates that over 83,000 VA jobs are created due to this expenditure-induced or ripple effect. Doubling the cigarette tax would lead to a loss of more than 4,100 expenditure induced jobs.

All together, the tax hike would lead to a loss of more than 6,400 VA jobs. Finally, dwindling cigarette sales will also mean less state cigarette tax revenues. These revenues will fall by about $1 million.

ECONOMIC LOSSES

SECTOR	LOSS IN PAYROLL	EMPLOYMENT LOSS (JOBS)
Tobacco Growing	$3,618,000	594
Tobacco Manufacturing	$33,272,000	608
Tobacco Wholesale Trade	$1,810,000	54
Tobacco Retail Trade	$3,383,000	221
Tobacco Sector Suppliers	$25,310,000	750
TOTAL TOBACCO SECTOR	$67,394,000	2,227
EXPENDITURE INDUCED SECTORS	$112,641,000	4,190
TOTAL LOSS	$180,035,000	6,416

ECONOMIC LOSSES TO GEORGIA FROM DOUBLING THE FEDERAL CIGARETTE TAX FROM 24 CENTS TO 48 CENTS PER PACK

Doubling the federal cigarette tax would have a significant impact on Georgia's economy. Tobacco growers, for example, would suffer substantial economic hardship. It is estimated that nearly 100 million pounds of tobacco was harvested in 1992. However, tobacco leaf sales would tumble by 8% with a doubling of the cigarette tax. This means that tobacco sales would decline by $14 million per year.

Price Waterhouse estimates that close to 12,000 Georgia residents have jobs in tobacco growing and manufacturing. About 600 of these jobs would be lost if the federal cigarette tax were doubled. The total employment loss in sectors linked to tobacco production and retailing would amount to 1,430 jobs. The payroll lost by these workers would amount to nearly $34 million.

In addition, the income created in Georgia's tobacco sector is re-spent in the Georgia economy which stimulates many other sectors. Price Waterhouse estimates that over 35,000 GA jobs are created due to this expenditure-induced or ripple effect. Doubling the cigarette tax would lead to a loss of more than 1,790 expenditure induced jobs.

All together, the tax hike would lead to a loss of more than 3,200 GA jobs. Finally, dwindling cigarette sales will also mean less state cigarette tax revenue. These revenues will fall by $4.3 million.

ECONOMIC LOSSES

SECTOR	LOSS IN PAYROLL	EMPLOYMENT LOSS (JOBS)
Tobacco Growing	$2,941,000	481
Tobacco Manufacturing	$7,323,000	118
Tobacco Wholesale Trade	$2,086,000	62
Tobacco Retail Trade	$3,496,000	234
Tobacco Sector Suppliers	$17,834,000	536
TOTAL TOBACCO SECTOR	$33,680,000	1,431
EXPENDITURE INDUCED SECTORS	$53,607,000	1,793
TOTAL LOSS	$87,287,000	3,224

ECONOMIC LOSSES TO TENNESSEE FROM DOUBLING THE FEDERAL CIGARETTE TAX FROM 24 CENTS TO 48 CENTS PER PACK

Doubling the federal cigarette tax would have a significant impact on Tennessee's economy. Tobacco growers, for example, would suffer substantial economic hardship. It is estimated that nearly 136 million pounds of tobacco was harvested in 1992. However, tobacco leaf sales will fall by 8% with a doubling of the cigarette tax. This means that tobacco leaf sales will fall by $19.5 million.

Price Waterhouse estimates, for example, that over 12,500 Tennessee residents have jobs in tobacco growing and manufacturing. Over 620 of these jobs would be lost if the federal cigarette tax were doubled. The total employment loss in sectors linked to tobacco production and retailing would be more than 1000 jobs.

In addition, the income created in Tennessee's tobacco sector is re-spent in the Tennessee's economy which stimulates many other sectors. Price Waterhouse estimates that over 30,340 TN jobs are created due to this expenditure-induced or ripple effect. Doubling the cigarette tax would lead to a loss of 1,500 expenditure induced jobs.

All together, the tax hike would lead to a loss of more than 2,500 TN jobs. State governments would suffer as well since the state cigarette tax base would dwindle. State cigarette tax revenues are projected to fall by $3.8 million.

ECONOMIC LOSSES

SECTOR	LOSS IN PAYROLL	EMPLOYMENT LOSS (JOBS)
Tobacco Growing	$3,301,900	543
Tobacco Manufacturing	$2,765,100	85
Tobacco Wholesale Trade	$1,763,000	62
Tobacco Retail Trade	$2,607,950	184
Tobacco Sector Suppliers	$5,510,750	206
TOTAL TOBACCO SECTOR	$15,948,750	1,081
EXPENDITURE INDUCED SECTORS	$40,426,650	1,517
TOTAL JOB LOSS	$56,375,400	2,598

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ECONOMIC LOSSES TO SOUTH CAROLINA FROM DOUBLING THE FEDERAL CIGARETTE TAX FROM 24 CENTS TO 48 CENTS PER PACK

Doubling the federal cigarette tax would have a negative impact on South Carolina's economy. Tobacco growers, for example, would suffer substantial economic hardship. It is estimated that nearly 110 million pounds of tobacco was harvested in 1992. However, tobacco leaf sales will fall by 8% with a doubling of the cigarette tax. This means that tobacco leaf sales will fall by $16 million

Price Waterhouse estimates, for example, that over 11,300 South Carolinians have jobs in tobacco growing. Over 550 of these jobs would be lost if the federal cigarette tax were doubled. The total employment loss in sectors linked to tobacco production and retailing would amount to over 800 jobs. The payroll lost by these workers would amount to nearly $11 million.

In addition, the income created in South Carolina's tobacco sector is re-spent in the South Carolina economy which stimulates many other sectors. Price Waterhouse estimates that over 23,000 SC jobs are created due to this expenditure-induced or ripple effect. Doubling the cigarette tax would lead to a loss of 1,100 expenditure induced jobs.

All together, the tax hike would lead to a loss of more than 1,900 SC jobs. State government would suffer as well since the state cigarette tax base would dwindle. State cigarette tax revenues are projected to fall by $1.3 million.

ECONOMIC LOSSES

SECTOR	LOSS IN PAYROLL	EMPLOYMENT LOSS (JOBS)
Tobacco Growing	$3,481,000	569
Tobacco Manufacturing	$479,000	11
Tobacco Wholesale Trade	$866,000	32
Tobacco Retail Trade	$1,844,000	135
Tobacco Sector Suppliers	$3,509,000	114
TOTAL TOBACCO SECTOR	$10,180,000	861
EXPENDITURE INDUCED SECTORS	$31,127,000	1,157
TOTAL ECONOMIC LOSS	$41,306,000	2,018