

E TOBACCO INSTITUTE
MEMORANDUM FROM
FRED PANZER

3/6/85

Maureen

Good News -
Ed liked your
economese -
let's have clean copy
in the Friday meeting.
Fred

Ogilvy & Mather Public Relations

3/5/85

MAUREEN DELANTY
ACCOUNT EXECUTIVE

Ed
Please Review.
See if Maureen
has done justice
by you.
Thanks
Fred.

Fred:

I've incorporated Ed's changes
on the copy and have marked them
on the charts.

Let me know the next step.

Maureen

3/6 ↓
Fred: It's looking
good now, except
for the "compensation"
write up. The other
income earners must
be included in this
"compensation" to
the work force valued.

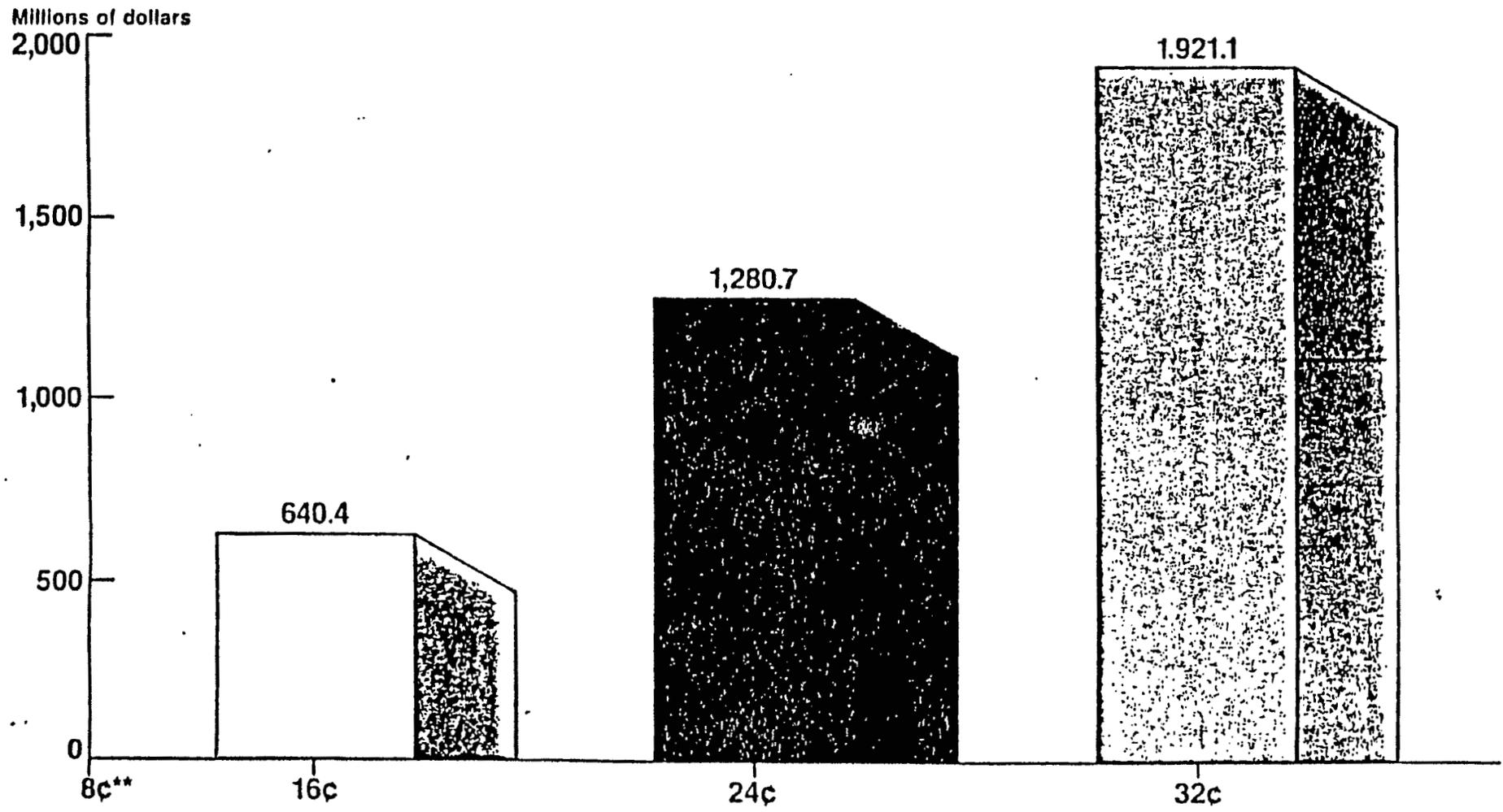
Economic Impact of a Range of Federal Excise Tax Rates

The following charts demonstrate the economic impact of the federal cigarette excise on GNP, national income, compensation to employees, job opportunities and state and local tax revenues. The charts show the impact at three different tax rates: 16¢, 24¢ and 32¢.

The Shortfall in Potential Gross National Product

In 1982, the tobacco industry and its suppliers directly accounted for approximately one percent of the nation's Gross National Product or some 26.5 billion dollars. This significant contribution will be below its potential by some 640.4 million dollars in 1986 if the federal excise tax on cigarettes fails to sunset and remains at the current level of 16¢ (yellow bar). GNP will be 1,280.7 million dollars less than it could be if the tax is increased by 8¢ to 24¢ (red bar) and almost 2 billion dollars less if it is doubled to 32¢ (green bar).

Shortfall Potential
The Decline in Gross National Product* (1986)
Economic Impact of a Range of Federal Excise Tax Rates



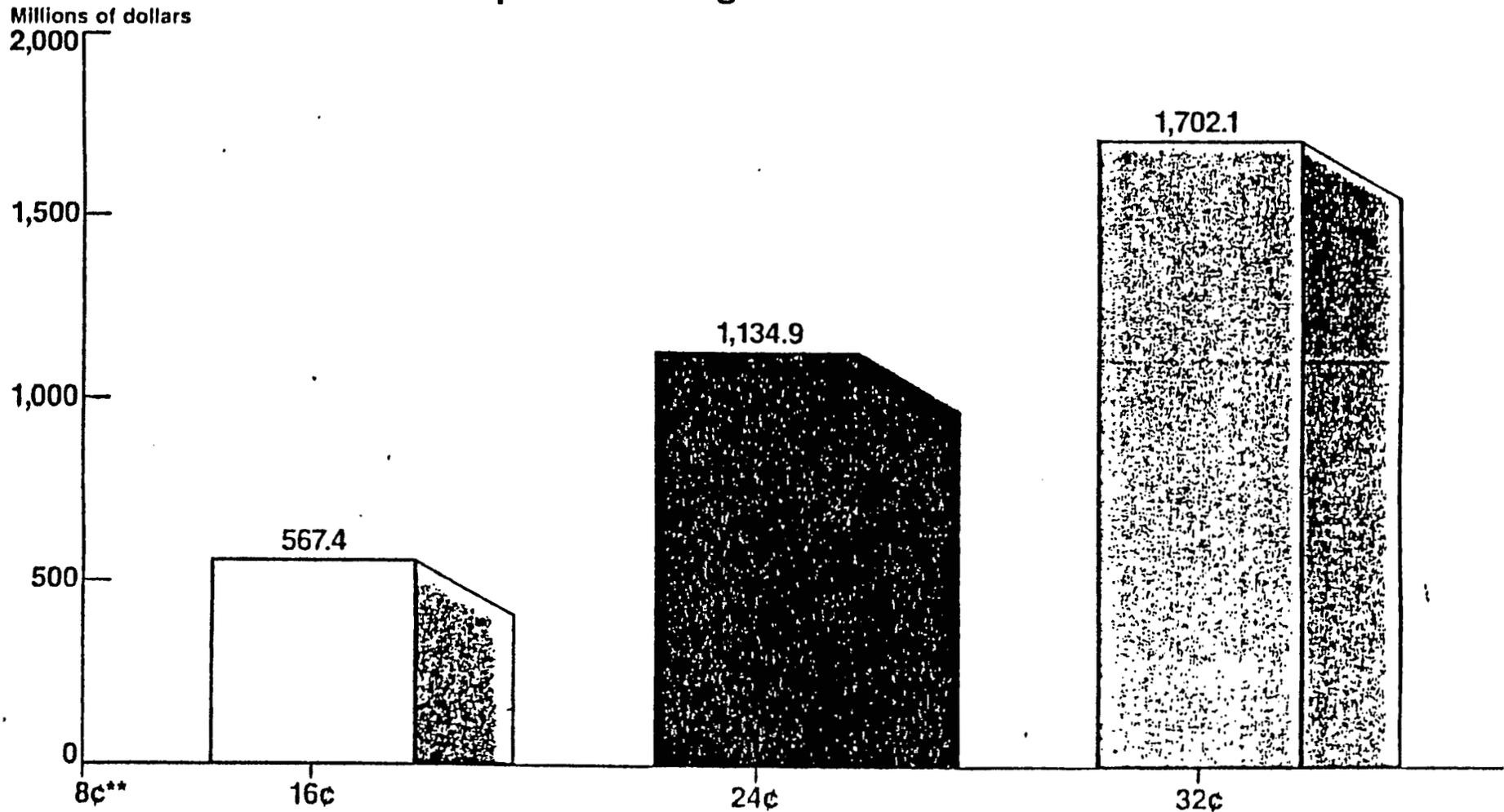
*The value of goods and services produced in the economy annually, including capital equipment services.
**8 cent base line above which these effects are measured.

The Shortfall in Potential National Income*

In 1982, the tobacco industry and its suppliers contributed an estimated 23.5 billion dollars to U.S. national income. This contribution will be below its potential by some 567.4 million dollars in 1986 if the federal excise tax on cigarettes remains at the current level of 16¢ (yellow bar). National income will be 1,134.9 million dollars less than it could be if the tax is allowed to increase to 24¢ (red bar) and 1,702.1 million dollars less if it goes to 32¢ (green bar).

*National income is the major portion of GNP.

Shortfall Potential
The Decline in National Income* (1986)
Economic Impact of a Range of Federal Excise Tax Rates



*National income consists of salaries & wages, dividends, interest, rents, and proprietors' income, including business excise taxes here.

**8 cent base line above which these effects are measured.

The Shortfall in Potential Compensation* for Employees

In 1982, the tobacco industry and all of its directly associated support industries paid their employees an estimated 15.9 billion dollars in total salaries, wages, and fringe benefits. This compensation will be less than it could be by an estimated 384.9 million dollars in 1986 if the federal excise tax on cigarettes remains at 16¢ (yellow bar). We will see a shortfall of some 769.7 million dollars if the rate increases to 24¢ (red bar) and 1,154.6 million dollars if it climbs to 32¢ (green bar).

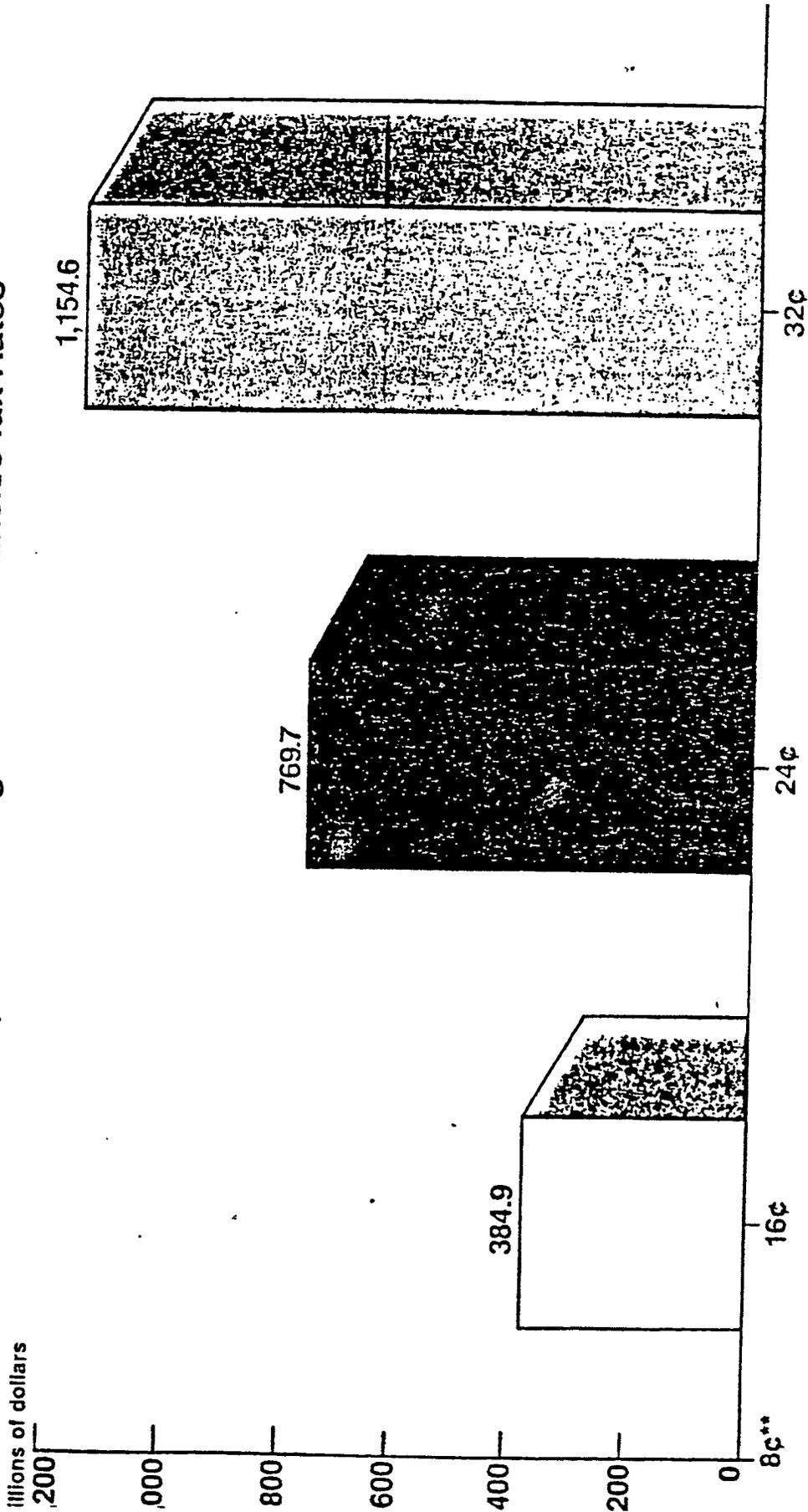
to all income earners

*Compensation is the largest part of both national income (about 75 percent) and GNP (about 60 percent).

Sharefall Potential

The Decline in Compensation to All Employees* (1986)

Economic Impact of a Range of Federal Excise Tax Rates



*Refers to salaries, wages, ~~and~~ fringe benefits, fees, dividends and profits.
**8 cent base line above which these effects are measured.

The Shortfall in Job Opportunities

In 1982, the cigarette manufacturers accounted for an estimated 68,000 jobs in the U.S. economy. All of their associated industries, including wholesale, retail, growers, warehousing, transportation and other direct suppliers of goods and services, contributed another 582,000, for a total of 650,000 jobs.

By 1986, direct cigarette manufacturing job opportunities will be below normal by approximately 1,300 if the cigarette excise tax remains at 16¢, 2,600 if it is allowed to increase to 24¢, or 3,900 if it reaches 32¢ (red bars).

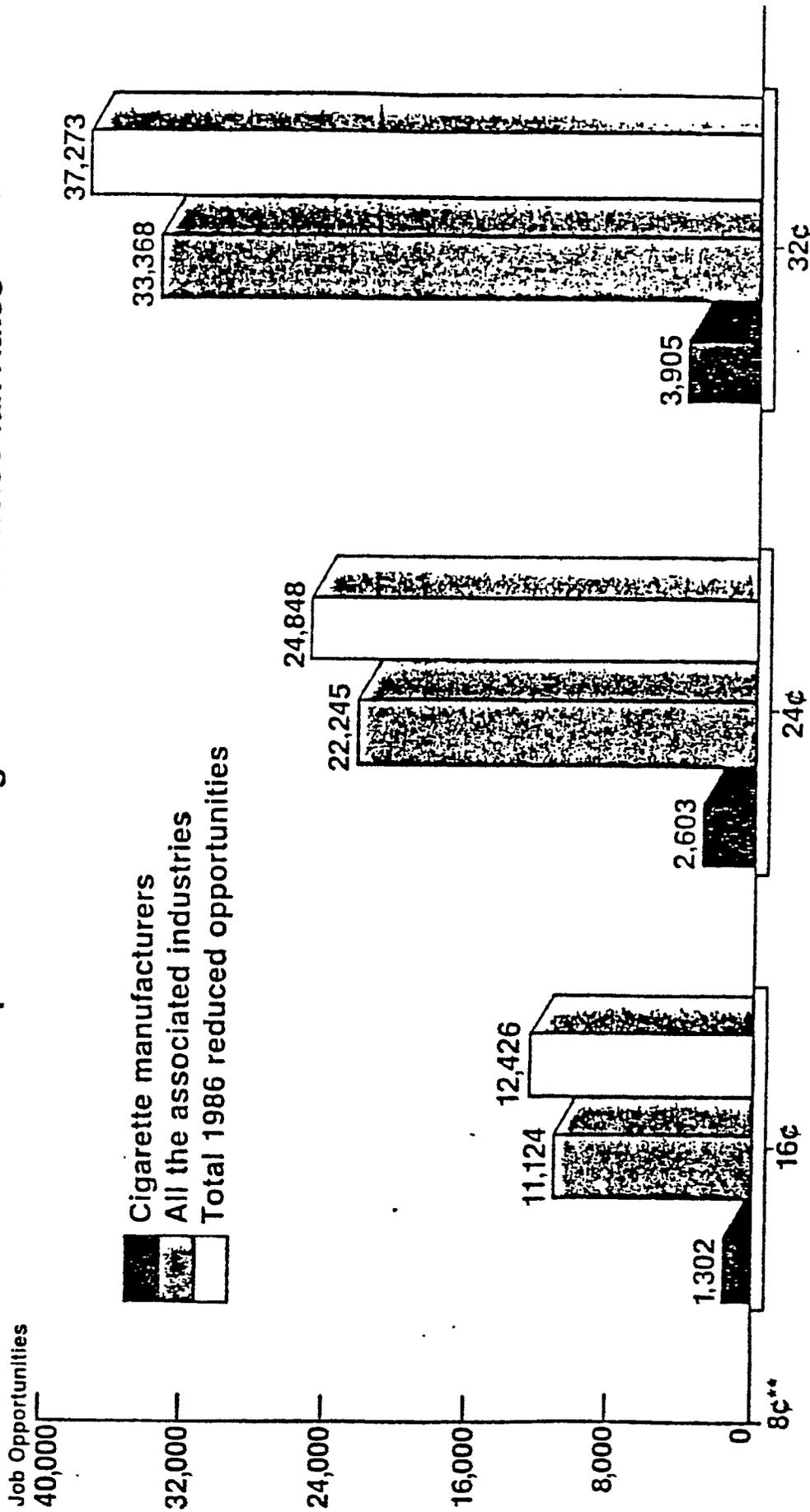
Job opportunities at risk in the associated supplier industries will be approximately 11,100 if the tax stays at 16¢, 22,250 if it increases to 24¢, or 33,350 if it doubles to 32¢ (green bars).

Total estimated 1986 reduced job opportunities will be 12,426 at 16¢, 24,848 at 24¢, or 37,273 at 32¢, under current estimates of prices, salaries and the expected number of smokers.

Shatfall

The Decline in Job Opportunities* (1986)

Economic Impact of a Range of Federal Excise Tax Rates



* Equivalent work opportunities that are eliminated.

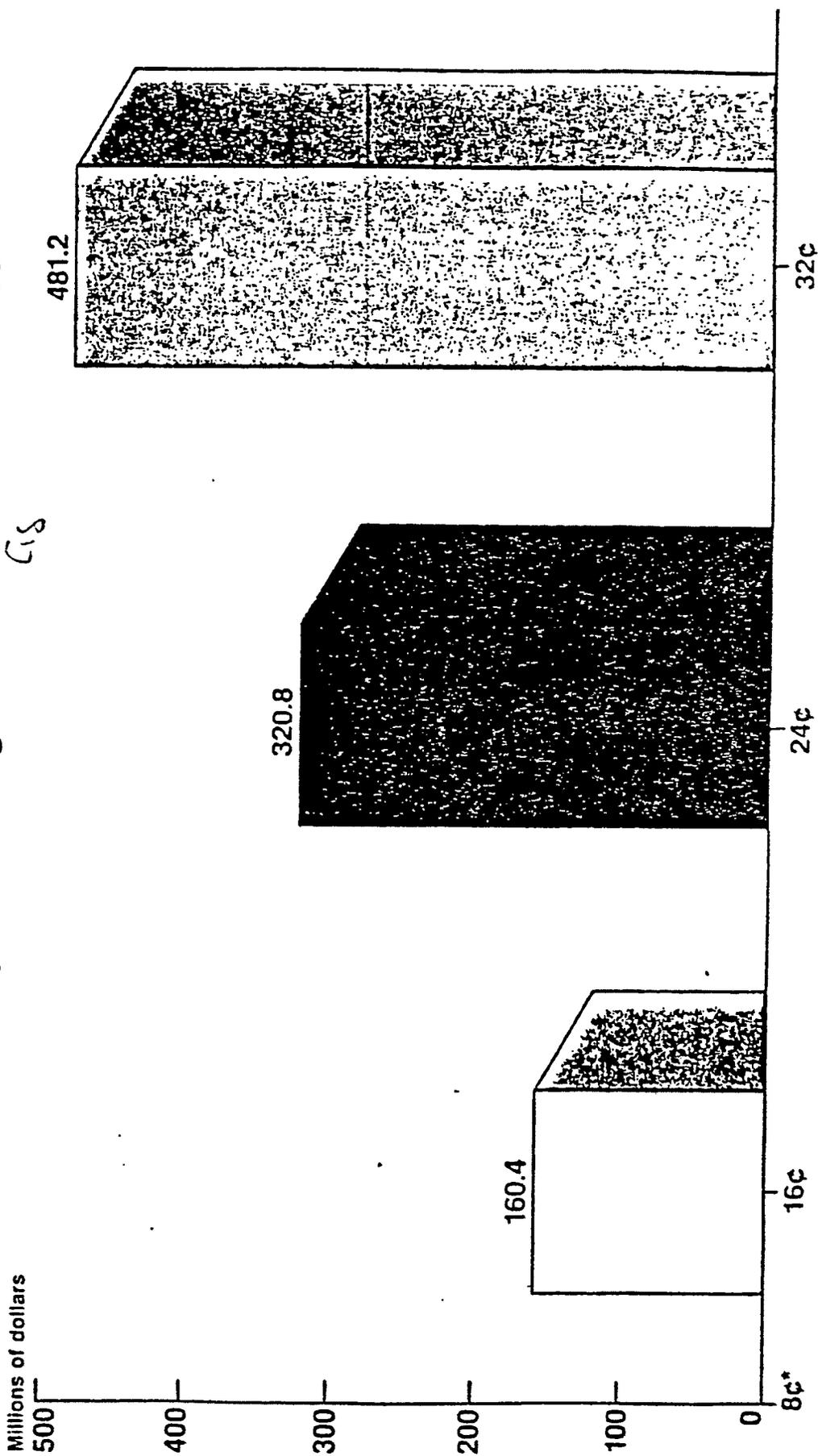
** 8 cent base line above which these effects are measured.

The Shortfall in State and Local Tax Revenues

In 1982, excise and sales taxes on the tobacco industry provided some 4.62 billion dollars in revenues to state and local treasuries. If the federal excise on cigarettes remains at the current level of 16¢, there will be a shortfall in this traditional source of funds by an estimated 160.4 million dollars in 1986 (yellow bar). This will be due to reduced sales associated with the tax increase. State and local governments will face a shortfall of 320.8 million dollars if the tax increases to 24¢ (red bar) and 481.2 million dollars if it goes to 32¢ (green bar).

Shortfall in
The Economic Loss of State and Local Excise Taxes (1986)

Excise Tax Revenue
 Economic Impact of a Range of Federal Excise Tax Rates



*8 cent base line above which these effects are measured.