September 15, 1993

MEMORANDUM

TO: Distribution

FROM: Susan Stuntz

For those of you seeking additional paper/statements/ideas on health care reform, attached are:

- Calculations of the impact of a 50-cent cigarette tax increase on jobs and revenues in the U.S. and in the key tobacco states. We are running the numbers now on the rest of the country. Still to come is a 75-cent increase.

- A letter that one of the tobacco-growing groups sent to its members with reasons why even a 50-cent increase is too much.

- An op-ed that TI sent today to the Washington Post, which has assiduously avoided carrying any arguments against a tobacco tax, even though its reporters have spent a great deal of time obtaining information from TI staff. This op-ed also will be the basis for other op-eds and letters and articles that will go out from TI as the plan is released.

Attachments

cc: Jane Danowitz
Mike Forscey
Peter Harris
John Jarvis
Jim Savarese
Eric Shulman

ECONOMIC LOSSES TO THE U.S.ECONOMY FROM INCREASING THE FEDERAL CIGARETTE TAX FROM 24 CENTS TO 74 CENTS PER PACK

Increasing the federal cigarette tax by 50 cents/pack would have a significant impact on the U.S. economy by reducing national cigarette sales by nearly 9%. 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 59,200 of these jobs would be lost if the federal cigarette tax were doubled. The payroll lost by these workers would amount to about $1.4 billion.

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. Increasing the cigarette tax by 50 cents/pack would lead to a loss of 139,300 expenditure induced jobs.

All together, the tax hike would lead to a loss of more than 198,000 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 $522 million.

ECONOMIC LOSSES

SECTOR	LOSS IN PAYROLL	EMPLOYMENT LOSS (JOBS)
Tobacco Growing	$86,304,000	14,161
Tobacco Manufacturing	$226,374,000	4,396
Tobacco Wholesale Trade	$130,674,000	4,038
Tobacco Retail Trade	$223,590,000	14,511
Tobacco Sector Suppliers	$740,022,000	22,180
TOTAL TOBACCO SECTOR	$1,407,138,000	59,277
EXPENDITURE INDUCED SECTORS	$4,396,806,000	139,300
TOTAL LOSS	$5,803,944,000	198,577

These estimates for job and compensation loss are based on a comprehensive study of employment and compensation in the U.S. tobacco industry prepared by Price Waterhouse in 1992. The economic loss estimates are projected by Tobacco Institute using a standard price elasticity model.

ECONOMIC LOSSES TO THE TOBACCO CORE STATES (GA,KY,NC,SC,TN,VA) FROM INCREASING THE FEDERAL EXCISE TAX FROM $0.24 TO $0.74 PER PACK

Increasing the federal cigarette tax by 50 cents per pack would have a significant impact on the six tobacco core states. National cigarette sales are projected to fall by nearly 9%. Price Waterhouse estimates that the tobacco industry creates over 279,240 jobs in the core states. These include jobs in tobacco growing, manufacturing, wholesaling, retailing and supplier industries. Nearly 24,290 of these jobs would be lost if the federal cigarette tax were increased by 50 cents/pack. The payroll lost by these workers would amount to about $482 million.

In addition, the income created the tobacco sector is re-spent in the tobacco core states which stimulates many other sectors. Price Waterhouse estimates that over 403,720 jobs are created due to this expenditure-induced or ripple effect. Increasing the cigarette tax would lead to a loss of over 35,126 expenditure induced jobs in the core states.

All together, the tax hike would lead to a loss of nearly 60,000 core state jobs. Core state governments will suffer as well since the state cigarette tax base would dwindle. State cigarette tax revenues in the six core states are projected to fall by more than $38.5 million.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	80,018,233	13,110
Tobacco Manufacturing	201,736,479	3,942
Tobacco Wholesale Trade	20,247,745	573
Tobacco Retail Trade	28,903,427	2,019
Tobacco Sector Suppliers	150,222,378	4,650
TOTAL TOBACCO SECTOR	481,128,261	24,294
EXPENDITURE INDUCED SECTORS	880,956,180	35,126
TOTAL LOSSES	1,362,084,441	59,418

These estimates for job and compensation loss are based on a comprehensive study of employment and compensation in the U.S. tobacco industry prepared by Price Waterhouse in 1992. The economic loss estimates are projected by The Tobacco Institute using a standard price elasticity model.

ECONOMIC LOSSES TO GEORGIA FROM INCREASING THE FEDERAL EXCISE TAX FROM $0.24 TO $0.74 PER PACK

Increasing the federal cigarette tax by $0.50 per pack would have a significant impact on the Georgia economy. Cigarette sales in Georgia could fall by approximately 9%. Price Waterhouse estimates that 28,597 Georgia residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 2,488 of these jobs would be lost if the federal cigarette tax is increased by $0.50 per pack.

In addition, the income created in the Georgia tobacco sector is re-spent in the Georgia economy which stimulates other sectors. Price Waterhouse estimates that 35,860 Georgia jobs are created due to this expenditure-induced or ripple effect. Increasing the cigarette tax by $0.50 per pack would lead to a loss of 3,120 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 5,608 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette tax revenues. Georgia cigarette tax revenues will drop by $9,334,839.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$5,117,410	836
Tobacco Manufacturing	$12,742,646	205
Tobacco Wholesale Trade	$3,630,232	108
Tobacco Retail Trade	$6,082,248	407
Tobacco Sector Suppliers	$31,030,403	932
TOTAL TOBACCO SECTOR	$58,602,939	2,488
EXPENDITURE INDUCED SECTORS	$93,276,354	3,120
TOTAL LOSSES	$151,879,293	5,608

These estimates for job and compensation loss are based on a comprehensive study of employment and compensation in the U.S. tobacco industry prepared by Price Waterhouse in 1992. The economic loss estimates are projected by The Tobacco Institute using a standard price elasticity model.

ECONOMIC LOSSES TO KENTUCKY FROM INCREASING THE FEDERAL EXCISE TAX FROM $0.24 TO $0.74 PER PACK

Increasing the federal cigarette tax by $0.50 per pack would have a significant impact on the Kentucky economy. Cigarette sales in Kentucky could fall by approximately 9%. Price Waterhouse estimates that 61,648 Kentucky residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 5,364 of these jobs would be lost if the federal cigarette tax is increased by $0.50 per pack.

In addition, the income created in the Kentucky tobacco sector is re-spent in the Kentucky economy which stimulates other sectors. Price Waterhouse estimates that 75,891 Kentucky jobs are created due to this expenditure-induced or ripple effect. Increasing the cigarette tax by $0.50 per pack would lead to a loss of 6,603 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 11,967 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette tax revenues. Kentucky cigarette tax revenues will drop by $4,779,171.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$22,928,311	3,763
Tobacco Manufacturing	$31,033,848	610
Tobacco Wholesale Trade	$2,210,296	81
Tobacco Retail Trade	$3,480,565	270
Tobacco Sector Suppliers	$20,626,056	640
TOTAL TOBACCO SECTOR	$80,279,076	5,364
EXPENDITURE INDUCED SECTORS	$146,761,301	6,603
TOTAL LOSSES	$227,040,377	11,967

These estimates for job and compensation loss are based on a comprehensive study of employment and compensation in the U.S. tobacco industry prepared by Price Waterhouse in 1992. The economic loss estimates are projected by The Tobacco Institute using a standard price elasticity model.

ECONOMIC LOSSES TO NORTH CAROLINA FROM INCREASING THE FEDERAL EXCISE TAX FROM $0.24 TO $0.74 PER PACK

Increasing the federal cigarette tax by $0.50 per pack would have a significant impact on the North Carolina economy. Cigarette sales in North Carolina could fall by approximately 9%. Price Waterhouse estimates that 105,633 North Carolina residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 9,189 of these jobs would be lost if the federal cigarette tax is increased by $0.50 per pack.

In addition, the income created in the North Carolina tobacco sector is re-spent in the North Carolina economy which stimulates other sectors. Price Waterhouse estimates that 154,713 North Carolina jobs are created due to this expenditure-induced or ripple effect. Increasing the cigarette tax by $0.50 per pack would lead to a loss of 13,460 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 22,649 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette tax revenues. North Carolina cigarette tax revenues will drop by $4,039,584.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$33,874,694	5,542
Tobacco Manufacturing	$94,422,527	1,903
Tobacco Wholesale Trade	$6,684,288	127
Tobacco Retail Trade	$5,703,668	402
Tobacco Sector Suppliers	$38,831,711	1,215
TOTAL TOBACCO SECTOR	$179,516,888	9,189
EXPENDITURE INDUCED SECTORS	$320,419,625	13,460
TOTAL LOSSES	$499,936,513	22,649

These estimates for job and compensation loss are based on a comprehensive study of employment and compensation in the U.S. tobacco industry prepared by Price Waterhouse in 1992. The economic loss estimates are projected by The Tobacco Institute using a standard price elasticity model.

ECONOMIC LOSSES TO SOUTH CAROLINA FROM INCREASING THE FEDERAL EXCISE TAX FROM $0.24 TO $0.74 PER PACK

Increasing the federal cigarette tax by $0.50 per pack would have a significant impact on the South Carolina economy. Cigarette sales in South Carolina could fall by approximately 9%. Price Waterhouse estimates that 17,218 South Carolina residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 1,498 of these jobs would be lost if the federal cigarette tax is increased by $0.50 per pack.

In addition, the income created in the South Carolina tobacco sector is re-spent in the South Carolina economy which stimulates other sectors. Price Waterhouse estimates that 23,133 South Carolina jobs are created due to this expenditure-induced or ripple effect. Increasing the cigarette tax by $0.50 per pack would lead to a loss of 2,013 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 3,511 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette tax revenues. South Carolina cigarette tax revenues will drop by $4,679,382.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$6,057,653	991
Tobacco Manufacturing	$833,077	18
Tobacco Wholesale Trade	$1,506,701	55
Tobacco Retail Trade	$3,209,221	235
Tobacco Sector Suppliers	$6,105,965	199
TOTAL TOBACCO SECTOR	$17,712,617	1,498
EXPENDITURE INDUCED SECTORS	$54,160,310	2,013
TOTAL LOSSES	$71,872,927	3,511

These estimates for job and compensation loss are based on a comprehensive study of employment and compensation in the U.S. tobacco industry prepared by Price Waterhouse in 1992. The economic loss estimates are projected by The Tobacco Institute using a standard price elasticity model.

ECONOMIC LOSSES TO TENNESSEE FROM INCREASING THE FEDERAL EXCISE TAX FROM $0.24 TO $0.74 PER PACK

Increasing the federal cigarette tax by $0.50 per pack would have a significant impact on the Tennessee economy. Cigarette sales in Tennessee could fall by approximately 9%. Price Waterhouse estimates that 21,614 Tennessee residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 1,880 of these jobs would be lost if the federal cigarette tax is increased by $0.50 per pack.

In addition, the income created in the Tennessee tobacco sector is re-spent in the Tennessee economy which stimulates other sectors. Price Waterhouse estimates that 30,340 Tennessee jobs are created due to this expenditure-induced or ripple effect. Increasing the cigarette tax by $0.50 per pack would lead to a loss of 2,640 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 4,520 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette tax revenues. Tennessee cigarette tax revenues will drop by $12,070,467.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$5,745,358	945
Tobacco Manufacturing	$4,811,291	148
Tobacco Wholesale Trade	$3,067,664	108
Tobacco Retail Trade	$4,537,850	320
Tobacco Sector Suppliers	$9,588,740	359
TOTAL TOBACCO SECTOR	$27,750,903	1,880
EXPENDITURE INDUCED SECTORS	$70,342,432	2,640
TOTAL LOSSES	$98,093,335	4,520

These estimates for job and compensation loss are based on a comprehensive study of employment and compensation in the U.S. tobacco industry prepared by Price Waterhouse in 1992. The economic loss estimates are projected by The Tobacco Institute using a standard price elasticity model.

ECONOMIC LOSSES TO VIRGINIA
FROM INCREASING THE FEDERAL EXCISE TAX
FROM $0.24 TO $0.74 PER PACK

Increasing the federal cigarette tax by $0.50 per pack would have a significant impact on the Virginia economy. Cigarette sales in Virginia could fall by approximately 9%. Price Waterhouse estimates that 44,537 Virginia residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 3,875 of these jobs would be lost if the federal cigarette tax is increased by $0.50 per pack.

In addition, the income created in the Virginia tobacco sector is re-spent in the Virginia economy which stimulates other sectors. Price Waterhouse estimates that 83,792 Virginia jobs are created due to this expenditure-induced or ripple effect. Increasing the cigarette tax by $0.50 per pack would lead to a loss of 7,290 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 11,165 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette tax revenues. Virginia cigarette tax revenues will drop by $4,987,014.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$6,294,807	1,033
Tobacco Manufacturing	$57,893,089	1,058
Tobacco Wholesale Trade	$3,148,565	94
Tobacco Retail Trade	$5,889,874	385
Tobacco Sector Suppliers	$44,039,504	1,305
TOTAL TOBACCO SECTOR	$117,265,838	3,875
EXPENDITURE INDUCED SECTORS	$195,996,158	7,290
TOTAL LOSSES	$313,261,996	11,165

These estimates for job and compensation loss are based on a comprehensive study of employment and compensation in the U.S. tobacco industry prepared by Price Waterhouse in 1992. The economic loss estimates are projected by The Tobacco Institute using a standard price elasticity model.

ECONOMIC LOSSES TO THE U.S.ECONOMY FROM INCREASING THE FEDERAL CIGARETTE TAX FROM 24 CENTS TO 74 CENTS PER PACK

Increasing the federal cigarette tax by 50 cents/pack would have a significant impact on the U.S. economy by reducing national cigarette sales by nearly 9%. 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 59,200 of these jobs would be lost if the federal cigarette tax were doubled. The payroll lost by these workers would amount to about $1.4 billion.

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. Increasing the cigarette tax by 50 cents/pack would lead to a loss of 139,300 expenditure induced jobs.

All together, the tax hike would lead to a loss of more than 198,000 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 $522 million.

ECONOMIC LOSSES

SECTOR	LOSS IN PAYROLL	EMPLOYMENT LOSS (JOBS)
Tobacco Growing	$86,304,000	14,161
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Tobacco Sector Suppliers	$740,022,000	22,180
TOTAL TOBACCO SECTOR	$1,407,138,000	59,277
EXPENDITURE INDUCED SECTORS	$4,396,806,000	139,300
TOTAL LOSS	$5,803,944,000	198,577

These estimates for job and compensation loss are based on a comprehensive study of employment and compensation in the U.S. tobacco industry prepared by Price Waterhouse in 1992 The economic loss estimates are projected by Tobacco Institute using a standard price elasticity model.

FLUE-CURED TOBACCO
COOPERATIVE STABILIZATION CORPORATION

P. O. Box 12300
Raleigh, North Carolina 27605

Telex: Flue-Cured Ral 80-2568
Telephone: (919) 821-4560

CC: Sam Chilcote / KCW
McAdam, Lewis, Stuntz
Mozingo (FAX) This is the PM letter
WW 9/14

September 13, 1993

Dear Advisory Committee Member:

Your livelihood is at stake! News reports and congressional sources have indicated that President Clinton is expected to call for a drastic increase of up to $1.00-per-pack in the federal excise tax on cigarettes in less than two weeks.

This outrageous hike in the tobacco excise tax is the only new tax the President is going to use to fund his health care reform plan. This means the financial burden of health care is entirely on the tobacco community's shoulders. The White House wants to raise $105 billion from this new tobacco tax.

It is critical that before the President presents his health care plan with this new tobacco tax to Congress on September 22, tobacco growers telephone their U.S. senators and representatives, as well as President Clinton, to express strong opposition to punitive increases in the federal excise tax on cigarettes.

When you call, tell the members that a federal excise tax increase of 50-cent per pack -- let alone $1.00 per pack -- would mean economic devastation for tobacco growers.

If even a 50-cent per pack increase is imposed:

- For flue-cured growers, the first year's quota would decline by 112 million pounds. This quota reduction is equivalent to losing 6,900 quota holders.
- Burley growers will see the first year's quota decline by 75 million pounds. This quota reduction is equivalent to losing 27,100 quota holders.
- Higher taxes mean less sales. Lower sales mean fewer jobs throughout the tobacco industry. A 50-cents per pack tax increase will result in 14,000 jobs lost in the grower-segment of the industry alone.
- Tobacco-growing states will suffer tremendous economic hardship. In total, tobacco-growing states would lose $77.8 million in worker compensation. In addition, states would be forced to bear the added cost of providing unemployment and retraining benefits to the newly unemployed.

The anti-smoking zealots are intensifying their campaign leading up to President Clinton's September 22 announcement to put tobacco growers out of business through the adoption of an outrageous, unjustified, and unfair tax on tobacco products. Only through your dedicated, intense efforts to communicate your views to your elected officials can you protect your livelihood and your family's welfare.

This is not a false alarm. Your livelihood is at stake! You must act today, and let your elected officials know that you will not stand for higher taxes and treated unfairly.

Call or write President Clinton.

The Honorable Bill Clinton
President of The United States
The White House
Washington, DC 20510
(202) 456-1414 or
White House Comments Office: (202) 456-1111

Attached is a list of your senators and representatives in Congress. We ask that you call your senators, and the representative from your district and any other representatives as well ---- and voice your opposition to this unjustified and unfair tax on tobacco products.

Sincerely,

Fred G. Bond

Fred G. Bond
Chief Executive Officer

FGB/ph

attachment

RAISING CIGARETTE TAXES - AN UNSOUND AND UNFAIR
WAY TO FUND HEALTH CARE REFORM

By
Thomas Lauria
Assistant to the President
The Tobacco Institute

Proposals to increase the federal excise tax on cigarettes to help pay the cost of restructuring the health care system could cost this country millions of dollars in income and tax revenues and thousands of jobs. Such proposals also fail to meet numerous tests of fairness and sound tax policy.

For example, raising the federal cigarette tax by $1 to $1.24 would have a devastating impact on the economy, especially in the South. Projections indicate a tax at this level would cost 388,028 jobs and payroll losses of $11.3 billion.

Even doubling the current 24-cents-per-pack tax would have a significant negative impact on the U.S. economy. Projections indicate that doubling the tax would cost 114,117 jobs and a payroll loss of $3.3 billion-- most of this in the South.

Cigarette sales are projected to fall following any substantial increase in the tax. As a result, jobs would be lost among tobacco farmers, and tobacco manufacturing, wholesaling, retailing, and supplier industries. Because people who are laid off would be disinclined to spend money on clothing, appliances, household goods, cars, trucks and other items, there would be an enormous "ripple effect."

The overall result of raising the federal excise tax on cigarettes would be a loss of government revenues. Not only would the direct revenue in the form of income taxes from those who lose their wages fall, but revenues from state excise and sales taxes would fall, impacting state treasuries, many of which rely heavily on excise taxes as a revenue source.

In fact, raising excise taxes on cigarettes is demonstrably unsound. The purported reason for increasing cigarette excise taxes is to raise money to help pay for health care reform. Clearly an increase in cigarette excise taxes would fail to provide a stable base for such financing.

In addition, these proposed tax increases are blatantly unfair. Excise taxes on cigarettes are paid by consumers. Last year smokers paid more than $11 billion in federal and state excise taxes on cigarettes. These are taxes that nonsmokers do not pay and they have risen dramatically in the last decade. In fact, excise taxes have risen on a federal level by 50 percent just since 1991...and have risen by 133 percent in the past ten years while state excise taxes increased by 100 percent.

Equally unfair is the concept of singling out just one commodity, one industry and one region of the United States for heavy additional taxation in order to fund social programs for the entire nation. If wholesale reform of our health care system is worth doing, then everyone should share the burden of funding it.

Underscoring the unfairness issue is new government data that suggest, if one accepts the validity of the claimed 'social costs' of smokers, that smokers already are "paying their own way"...and then some.

In May 1993, the Congressional Office of Technology Assessment (OTA) claimed that smokers "cost" federal, state and local governments $8.9 billion in health care expenditures attributable to smoking-related illnesses.

But smokers already pay federal, state and local governments $11.3 billion in cigarette excise taxes and another $2 billion in sales taxes -- a total of $13.3 billion. These taxes alone contribute substantially more -- in fact, $4.4 billion more -- than OTA claims smokers "cost" the government in health care expenditures.

The OTA estimates the federal government's share of these government "costs" at $6.3 billion, which translates to 24 cents per pack of cigarettes sold. The current federal cigarette excise tax is 24 cents per pack.

While the OTA also claims that smokers incur $11.8 billion in other "direct" health care costs, these "costs," to the extent they may exist, are far from "costs" to society. Instead, they are already paid by smokers themselves or their insurance companies.

The final argument against an excise tax hike has been a progressive cornerstone for decades: they are regressive. They hit hardest the consumers with low and middle incomes and people with fixed incomes. These are the very people who can least afford to pay.

A 1987 Congressional Budget Office study states that excise taxes are among the most regressive of all taxes and that tobacco taxes are "the most regressive of all." Consumer excise taxes are not levied according to one's ability to pay. Thus they severely impact the poor, the elderly, and low-and middle-income individuals.

One needs only to think back to last fall's Presidential debate in Richmond, Virginia, when candidate Bill Clinton promised specifically that he would not "(t)ax middle class Americans to pay for my programs." It is ironic -- and unfortunate -- that the very state in which that promise was made stands to be one of those that will suffer the most from this latest broken promise.

Excise taxes are both arbitrary and unfair. They discriminate against consumers of selected goods and services. Taxes should be applied with equity and based on ability to pay. Financing progressive government through regressive taxes forces comparatively few Americans to pay for advantages enjoyed by the entire society.

Proposals to raise excise taxes represent a step backward from efforts by the Clinton administration to introduce a tax system that is fairly shared by all Americans.

September 15, 1993

MEMORANDUM

TO: Bob Lewis
Bob McAdam

FROM: Susan Stuntz

Media relations staff spent a great deal of time working with a Washington Post reporter on his story on the stability of the tobacco tax base and were understandably annoyed when the article that appeared on the front of the Business page today cited only anti-smokers David Sweanor and Ken Warner.

In response, the attached op-ed was developed and has been sent to Meg Greenfield with a request that the Post allow the industry an opportunity to make its case that has thus far been omitted from Post stories.

This op-ed also will be the basis for op-eds, letters and articles that will be produced as the Administration's plan is released.

Attachment

cc: Sam Chilcote
Cal George
Tom Lauria
Walter Woodson

RAISING CIGARETTE TAXES - AN UNSOUND AND UNFAIR WAY TO FUND HEALTH CARE REFORM

By
Thomas Lauria
Assistant to the President
The Tobacco Institute

Proposals to increase the federal excise tax on cigarettes to help pay the cost of restructuring the health care system could cost this country millions of dollars in income and tax revenues and thousands of jobs. Such proposals also fail to meet numerous tests of fairness and sound tax policy.

For example, raising the federal cigarette tax by $1 to $1.24 would have a devastating impact on the economy, especially in the South. Projections indicate a tax at this level would cost 388,028 jobs and payroll losses of $11.3 billion.

Even doubling the current 24-cents-per-pack tax would have a significant negative impact on the U.S. economy. Projections indicate that doubling the tax would cost 114,117 jobs and a payroll loss of $3.3 billion -- most of this in the South.

Cigarette sales are projected to fall following any substantial increase in the tax. As a result, jobs would be lost among tobacco farmers, and tobacco manufacturing, wholesaling, retailing, and supplier industries. Because people who are laid off would be disinclined to spend money on clothing, appliances, household goods, cars, trucks and other items, there would be an enormous "ripple effect."

The overall result of raising the federal excise tax on cigarettes would be a loss of government revenues. Not only would the direct revenue in the form of income taxes from those who lose their wages fall, but revenues from state excise and sales taxes would fall, impacting state treasuries, many of which rely heavily on excise taxes as a revenue source.

In fact, raising excise taxes on cigarettes is demonstrably unsound. The purported reason for increasing cigarette excise taxes is to raise money to help pay for health care reform. Clearly an increase in cigarette excise taxes would fail to provide a stable base for such financing.

In addition, these proposed tax increases are blatantly unfair. Excise taxes on cigarettes are paid by consumers. Last year smokers paid more than $11 billion in federal and state excise taxes on cigarettes. These are taxes that nonsmokers do not pay and they have risen dramatically in the last decade. In fact, excise taxes have risen on a federal level by 50 percent just since 1991...and have risen by 133 percent in the past ten years while state excise taxes increased by 100 percent.

Equally unfair is the concept of singling out just one commodity, one industry and one region of the United States for heavy additional taxation in order to fund social programs for the entire nation. If wholesale reform of our health care system is worth doing, then everyone should share the burden of funding it.

Underscoring the unfairness issue is new government data that suggest, if one accepts the validity of the claimed 'social costs' of smokers, that smokers already are "paying their own way"...and then some.

In April 1993, the Congressional Office of Technology Assessment (OTA) claimed that smokers "cost" federal, state and local governments $8.9 billion in health care expenditures attributable to smoking-related illnesses.

But smokers already pay federal, state and local governments $11.3 billion in cigarette excise taxes and another $2 billion in sales taxes -- a total of $13.3 billion. These taxes alone contribute substantially more -- in fact, $4.4 billion more -- than OTA claims smokers "cost" the government in health care expenditures.

The OTA estimates the federal government's share of these government "costs" at $6.3 billion, which translates to 24 cents per pack of cigarettes sold. The current federal cigarette excise tax is 24 cents per pack.

While the OTA also claims that smokers incur $11.8 billion in other "direct" health care costs, these "costs," to the extent they may exist, are far from "costs" to society. Instead, they are already paid by smokers themselves or their insurance companies.

The final argument against an excise tax hike has been a progressive cornerstone for decades: they are regressive. They hit hardest the consumers with low and middle incomes and people with fixed incomes. These are the very people who can least afford to pay.

A 1987 Congressional Budget Office study states that excise taxes are among the most regressive of all taxes and that tobacco taxes are "the most regressive of all." Consumer excise taxes are not levied according to one's ability to pay. Thus they severely impact the poor, the elderly, and low-and middle-income individuals.

One needs only to think back to last fall's Presidential debate in Richmond, Virginia, when candidate Bill Clinton promised specifically that he would not "(t)ax middle class Americans to pay for my programs." It is ironic -- and unfortunate -- that the very state in which that promise was made stands to be one of those that will suffer the most from this latest broken promise.

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Proposals to raise excise taxes represent a step backward from efforts by the Clinton administration to introduce a tax system that is fairly shared by all Americans.

September 15, 1993

MEMORANDUM

TO: Cal George

FROM: Susan Stuntz SMS

Forscey gave me a copy of the Citizen Action analysis of the Clinton health care plan (although he indicated that several copies were made here in PAD, I hadn't seen one). I considered sending it around to the group of people to whom we distribute materials on the FET issue, but decided against it, largely because there's absolutely no mention whatsoever of the excise or "sin" tax portion of the financing package.

The discussion of premiums notes that the financing is "more regressive than previous descriptions," but says that's because there is no limit on the individual's contribution and subsidies only for persons below 250% of poverty.

This is not an encouraging document from our perspective. I could conclude -- and certainly others who are less close to this program than I am will conclude -- that Citizen Action is not committed to opposing the excise tax portion of the program at all and only gives lip service to that issue when in our presence or when it's a document that we have substantial input on.

This is a tremendous disappointment and I will be hard pressed to argue in support of any additional funding for this group absent some very substantial changes to this document and others like it that might eventually go out from this group.

Attachment

Basic Provisions of the Clinton Plan

ISSUE	PROVISION SUMMARY	COMMENTS
State single-payer option	States may opt for single-payer either state-wide or for a specific region. If so, the federal government may waive: ●ERISA rules for corporate alliances ●Guaranty fund rules ●Rules on regional, corporate alliance participation ●Medicare	States have to get waivers and the federal government may reject. We had expected only a Medicare waiver process to ensure that seniors are protected. States cannot use revenue sources in the bill for additional benefits (presumably also including the elimination of cost-sharing) which may be an obstacle. It appears also that they cannot impose a payroll tax greater than that in the bill.
Coverage	By 1/1/97, states must establish health alliances. Except for Medicare, DoD, VA and Indian Health Service, all Americans receive coverage through regional or corporate (companies with over 5,000 employees nationwide) health alliances. Medicaid beneficiaries are covered through alliances, with wraparound coverage for extra services. Health alliance enrollees can remain in the alliance once they turn 65 and states can get waivers to include all Medicare beneficiaries. Undocumented workers are eligible for emergency care but not full coverage.	The requirement of universal coverage by 1997 is a victory since there was pressure for a longer phase in. It appears that the inclusion of Medicaid beneficiaries is being done in a non-discriminatory fashion, another improvement. There is no language on current Medicare beneficiaries being able to opt into the health alliance on an individual basis, however.

ISSUE	PROVISION SUMMARY	COMMENTS
Corporate Health Alliances	Corporations and Taft-Hartley plans with over 5,000 employees nationwide can self-insure, contract with an insurer or join the regional alliance. They must offer the same benefits, a fee-for-service and two other options, and pay 80% of the cost of their average premium (or, if greater, 95% of the least-cost premium for low-wage workers). Business and individual subsidies are not provided for corporate plans.	Employee choice is limited to only three plans -- less than would be available through the regional health alliance. The limit of 5,000 nationally means more firms can opt out than if the limit were set for employees in the health alliance. More information is needed on employee contribution requirements, employer liability to retirees, and employee protections.
General Benefits	Medically necessary or appropriate hospital, emergency, professional services, preventive, family planning, prescription drug, medical equipment, mental health and substance abuse (with limits) vision and hearing care are covered. Preventive dental for persons below 18. Benefits expanded to include adult dental by the year 2001 if expected savings accrue.	Benefits are fairly comprehensive. Since additional employer-provided benefits are not treated as taxable income to employees for 10 years, it does not appear as if workers will be harmed.
Mental Health, Substance Abuse	By the year 2001, limits on benefits are eliminated. Until then, inpatient care is limited to 30 days/episode and 60 days/year until 1998, when the yearly maximum increases to 90 days. Outpatient psychotherapy limits are 30 vists/year.	The elimination of limits is not ironclad, so differential treatment remains.

ISSUE	PROVISION SUMMARY	COMMENTS
Long-term care	A new home and community-based care program covers the severely disabled of all ages and all incomes, including personal assistance services. States can provide care through vouchers or cash payments and set "nominal" cost-sharing for persons below 150% of poverty. Low-income persons not as severely disabled get services through a continuation of Medicaid programs, with funding ultimately capped. Asset rules for Medicaid nursing home eligibility are eased. HHS sets rules for long-term care insurance.	While some groups are viewing this as a victory, the state flexibility to provide cash payments or vouchers may be troublesome depending on how it is structured. Also, states have discretion in setting benefits which may be a problem. Also, we need additional information on cost-sharing and how the Medicaid continuation program would work.
Treatment of Seniors	Seniors are eligible for long-term care provisions (see above) plus a new prescription drug benefit with a $250 deductible and a 20% copay up to $1,000. Beneficiaries would pay 25% of the cost through increases in the Part B premium.	The increase in the Part B premium may be significant. We will also have to learn whether low-income seniors will be protected and whether seniors in HMOs pay full cost-sharing.

ISSUE	PROVISION SUMMARY	COMMENTS
Cost-sharing	Different levels are set for low-cost (in-network) and higher-cost (out-of-network or fee-for-service) plans. Low-cost: no deductibles, no copays for hospital or preventive care, $10 copay for physician visits, $5 copay for drugs, and annual out-of-pocket limits of $1500/$3000. Higher-cost plans have a $200/$400 deductible plus a $250/year drug deductible, 20% copays on all services except preventive care, and annual out-of-pocket limits of $1500/$3000. Persons below 150% of poverty receive subsidies if there is no low-cost-sharing plan available to them.	The cost-sharing requirements may present real obstacles for persons, particularly those in areas where there are no low-cost plans. Even in the low-cost plan, some low-income people may be unable to afford a $10 copay or a $5/drug copay. Particularly for drugs which require physician approval, there is no sound policy reason for cost-sharing.
Balance Billing	There are several contradictory provisions. In one place, physicians are prohibited from charging extra. In another, states are prohibited from including Medicare beneficiaries if limits are higher than allowed in Medicare (15%).	This issue needs further clarification.

ISSUE	PROVISION SUMMARY	COMMENTS
Health Plan Premiums	Employers are required to pay 80% of the weighted average premium adjusted by family status, limited to. 7.9% of their aggregate payroll. Employers with under 50 employees are subsidized according to average payroll – those paying less than $12,000/year pay 3.5% with subsidies ending at the $24,000/year level. Workers are required to pay the premium for the plan they select minus 80% of the weighted average premium. There is no percentage of income limit on worker contributions. Self-employer workers pay the employer and employee share. Non-workers and part-time workers pay the employer and family share with subsidies for families below 250% of poverty. Premiums are community-rated except for (1) an age-adjusted premium for persons over 65 and (2) an experience-rated premium phased out to a community rate over 4 years for large corporations.	The financing of the plan is more regressive than previous descriptions, since there is no limit on the individual's contribution and subsidies only for persons below 250% of poverty. Small businesses have incentives to keep workforces below 50 (in order to maintain the subsidy) and to keep salaries low (in order to get the highest subsidy).

ISSUE	PROVISION SUMMARY	COMMENTS
Cost controls	There is a budget which does not include extra benefits, cost-sharing, or auto/workers comp insurance costs. The National Health Board establishes a base national premium target and a target for each health alliance. If the target is exceeded, higher-cost plans are taxed and revenues used to reduce employer liability. States may also meet the target through negotiations, freezing enrollment in higher cost plans, rate-setting, capital budgeting. After the initial year, annual increases will be limited to growth in inflation. There are no cost controls on drugs or medical equipment.	It is difficult to see how these provisions will be effective in reducing costs especially in the base year. While the budget growth limits may be effective in limiting federal spending, it is unclear what will happen if plans refuse to provide coverage within health alliance budgets. Excluding cost-sharing and auto/workers comp insurance costs from the budget is also a problem. Since limits are set only for the aggregate, individual plans/consumers may experience higher increases.

ISSUE	PROVISION SUMMARY	COMMENTS
Medical Malpractice	•Limits attorneys fees to 33%, states can lower limits •Imposes collateral source rule •Requires periodic payments •Sets alternative dispute resolution requirements. Victims must go through ADR but can go to court if not satisfied. •Provides absolute defense for providers who follow practice guidelines •Demo project for enterprise liability •Provides more public access to National Practitioner Data Bank	While we won on the issue of caps on awards, these are not provisions which are balanced or which protect victims. For example, victims must accept periodic payments. Measures to encourage better quality -- for example through experience rating of med mal premiums -- are missing.
Funding for Subsidies	Funding for subsidies and other federal programs come from the following (figures are for 1994-2000): •$124 billion in Medicare savings, including lower reimbursement for providers, higher premiums for wealthier beneficiaries, and more use of HMOS. •$114 billion in Medicaid savings •$47 billion in other federal savings •$105 billion in sin taxes •$51 billion in revenues gains	We will be undertaking more analysis of these numbers to see how realistic they are. The cuts in Medicare and Medicaid are problematic unless we can be assured that they won't reduce care.