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Excise

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MEMORANDUM

TO: BUFFY LINEHAN
FROM: HOWARD S. LIEBENGOOD
DATE: OCTOBER 19, 1993
SUBJECT: PM ACTIVITY AFTER PRESIDENT SUBMITS HEALTH CARE PACKAGE

In response to your request, this paper offers thoughts on PM's appropriate legislative posture and activity between the submission of the President's health care reform package, to include a definitive excise tax number, and serious legislative consideration of the health care bill, presumably next Spring.

While PM must insist on a reasonable tax rate phased in evenly over a period of years, PM should take the lead in determining what "reasonable" means. One dollar or more would seem inherently unreasonable. Sixty-five cents or less, say fifty cents, would seem far more reasonable. PM must define "reasonableness," taking into account the Administration's thirst for revenue on one hand and a fair return on investment that includes diminishing returns, on the other hand. The definition must be realistic, defensible, and marketable.

It seems ever more apparent that the financing of healthcare reform is likely the achilles heel for the Initiative. Objections to the cost of sweeping reform will inevitably curtail the scope of the Administration's aspirations. As that debate rages, over funding issues, largely unrelated to tobacco, PM must consistently make a case for the limits of reasonableness on our funding capacity, utilizing all of our arguments -- regressivity, diminishing returns, state revenue loss, selective discrimination as it relates to growers, producers, and consumers, etc. PM should appear eager to assist in funding a fair share of health care, but only within the bounds of reasonableness. If this means additional revenue sources, so be it. If this means curtailing the scope of reform, so be it. If it means both, all the better. The point is that as the Administration endeavors to defend a likely indefensible cost scheme, the public and the politicians must become increasingly aware of the effective limits of tobacco as a funding mechanism.

Given the lowly state of cigarettes among the affections of the public and their elected officials, much work must be done to cultivate and energize allies along every line of argument. For example, blacks and hispanics to work their respective caucuses; governors to assert state prerogatives and funding needs; economists who appreciate the

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diminishing returns; advertisers; organized labor; convenience store operators; consumers, etc. The theme throughout should be "reasonableness", stressing real limitations and targeted unfairness. Particular attention must be paid to the Leadership and tax writing committees where we must stress the point that while the President speaks of a "shared sacrifice", he seeks to impose a targeted and "unshared" cost burden on a single industry (already the nation's largest corporate tax payer), on a handful of states, and on a "working class" product.

Once PM determines, as dispassionately as possible, the scope of reasonable taxation, we must market their perception, particularly with the two tobacco states that matter -- NC and KY, persuading Rose and Ford to marshal all of tobacco's Congressional resources to insist on a "reasonable level" of taxation or risk bloc opposition to healthcare reform. This will be quite a trick, which I am sure is already ongoing.

In short, I think there is much work to be done between introduction and passage. The work will be required whether the President's number is 65 cents or \$1.65. If the number is 50 cents, which I genuinely doubt, I would seriously consider shaking the President's hand before he changes his mind. Conversely, assuming the worst, I would caution that PM not appear overly bellicose immediately. I think it would be wiser to wait in the weeds awhile, quietly organizing allies, to see who takes on the financing scheme. I think the uproar over financing will spawn a range of strange but potentially effective bedfellows that we might work with effectively through cut outs. We can't win this battle with our own muscle, but have a fighting chance to improve our position as the long knives move in on the Clinton funding scheme in coming months.

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