OTHER REVENUE RAISING OPTIONS

The revenue raising options listed below are not being recommended as actual policy alternatives. They are mentioned as potential options responding to possible questions concerning ways to make up for lower cigarette tax revenues. These options are contained in the Congressional Budget Office's report entitled, "Reducing the Deficit: Spending and Revenue Options," published in 1993.

REVENUE OPTION	AVERAGE ANNUAL REVENUE INCREASE
2% VALUE ADDED TAX APPLIED TO COMPREHENSIVE TAX BASE	$31.8 BILLION
2% VALUE ADDED TAX APPLIED TO NARROW TAX BASE	$17.4 BILLION
2% BROAD BASED ENERGY TAX	$7.4 BILLION
RAISE MEDICARE DEDUCTIBLE FOR PHYSICIAN SERVICES FROM $100 TO $150	$1.86 BILLION
RAISE COINSURANCE RATE ON SUPPLEMENTARY MEDICAL INSURANCE FROM 20% TO 25%	$4.1 BILLION
INCREASE THE PREMIUM FOR PHYSICIAN SERVICES UNDER MEDICARE FROM 25% TO 30%	$6.02 BILLION
IMPOSE 20% COINSURANCE RATE ON ALL HOME HEALTH AND SKILLED NURSING SERVICES UNDER MEDICARE (FIRST 20 DAYS)	$4.4 BILLION
INCREASE BY 2% THE COPAYMENT OR USER FEE FOR ALL MEDICAL SERVICES AND PROGRAMS PROVIDED UNDER THE HEALTH SECURITY ACT (THE CLINTON PLAN)	NO ESTIMATE CURRENTLY AVAILABLE BUT MORE THAN LIKELY GREATER THAN $14 BILLION

THE ECONOMIC EFFECTS OF INCREASING THE FEDERAL EXCISE TAX ON CIGARETTES

BACKGROUND

In order to finance an omnibus health care reform package, the Clinton administration has proposed a drastic increase in the federal cigarette tax. The Clinton proposal would raise the current federal levy of 24 cents per pack by 75 cents, to 99 cents per pack. A tax increase of this magnitude would place a severe burden on smokers to finance a government program that benefits all.

Such a tax hike would be highly discriminatory. It singles out a minority of the population for a special burden from which it receives no special benefit. A 75 cent per pack tax increase would increase the yearly tax burden of a typical smoker by almost $400. In addition, the smoker must pay all income, sales, property and assorted taxes just like everybody else.

Cigarette taxes have climbed dramatically in recent years. Since 1982, the federal cigarette tax has increased 200% from 8 cents to the current 24 cents per pack. At the state and local level the average cigarette tax (weighted) has risen 102%, from 14.1 cents per pack in 1982 to 28.6 cents per pack in 1993. The combined state, local and federal tax on cigarettes has risen from 22.1 cents in 1982 to 53.6 cents in 1993.

All this taxing has meant that the rate of cigarette tax increases has galloped past inflation. While the Consumer Price Index (CPI) advanced by approximately 47% from 1982 up to 1993, the combined state, local and federal cigarette tax has advanced by 142%.

While cigarette taxes have been rising briskly, the federal cigarette tax increases proposed by the Clinton adminstration would represent a mega-increase. In response, a number of significant adverse economic impacts would emerge. These economic impacts will be outlined below but some of the highlights for a 75 cent/pack increase are as follows:

- Nearly 82,000 U.S. tobacco sector jobs would be lost.
- Job losses in the South would amount to 40,000 jobs. As a percentage of state population the jobs lost in the tobacco sector of the South would be 3.5 times greater than the rest of the U.S.
- Hard-pressed states would lose about $847 million in state cigarette tax revenue.

- While the federal government is expecting to raise an additional $10.4 billion in net cigarette revenues, the actual revenue increase may well be less than half this amount. This occurs mainly because many federal programs are indexed to the Consumer Price Index which would increase substanially with a mega cigarette tax hike. A 75 cent/pack tax hike, according to the Bureau of Labor Statistics, would cause the CPI to increase by nearly 1 percentage point, thereby increasing federal indexed entitlement payments by over $4 billion per year.

- Low and middle income Americans would absorb most of the tax increase. While 54% of households in America earn $30,000 or less per year they only account for 19% of all income earned. Yet these households pay over 50% of all state and federal cigarette taxes. The Clinton cigarette tax is, therefore, a special tax on low and middle income classes.

ECONOMIC IMPACT OF THE TOBACCO INDUSTRY AND JOB LOSSES

According to a 1992 study by Price Waterhouse, the tobacco industry's contribution to the nation's economy is extremely significant. Domestic consumer spending on tobacco products, tobacco industry investment, and net exports of tobacco products generated an estimated $52 billion in 1990.

According to the Price Waterhouse study, approximately 681,000 jobs were created in the U.S. tobacco sector. The tobacco sector includes tobacco growing, tobacco manufacturing, the distribution and retailing of tobacco products, and the industries that supply these sectors.

A large portion of income created in the tobacco sector sector is spent on consumer and investment goods, which in turn creates jobs and wages in many other industries. These multiple rounds of spending are often referred to as the the ripple or multiplier effect. Price Waterhouse estimates that this expenditure sector accounted for another 1.6 million jobs.

A 75 cent per pack tax increase would decimate the jobs and income attributable to the tobacco industry. A tax increase of this magnitude would raise the average price of a pack of cigarettes by about 40% which would lead to a significant drop in tobacco sales. Using a conservative estimate of cigarette demand elasticity, it is projected that national cigarette sales would fall by, at least, 12%

A 12% reduction in cigarette demand would translate into significant job and payroll losses. It is estimated that nearly 82,000 tobacco sector jobs would be lost in the U.S. economy. The tobacco sector payroll loss would be about $1.9 billion. The expenditure-induced job loss would be nearly 192,000 jobs.

The economic losses would be especially devestating in the South. It is estimated that nearly 40,000 tobacco sector jobs would be eliminated in 12 southern states. As a percentage of state population, the jobs lost in the tobacco sector of the South would be 3.5 times greater than rest of the U.S.

In the six major tobacco producing states of Georgia, Kentucky, North Carolina, South Carolina, Tennessee and Virginia, the tobacco sector job loss would amount to 33,500 jobs.

EXCISE TAX REVENUE LOSSES TO THE STATES

State cigarette taxes are levied in all 50 states and the District of Columbia. In FY 1993 cigarette excise taxes generated over $6.7 billion for state governments. However, if a 75 cent/pack cigarette tax is enacted this is expected to drop national cigarette consumption by at least 12%. The state cigarette tax revenue loss to the state would be about $840 million per year.

Dwindling revenues will not only dent the general fund of most states but it will also affect many earmarked programs. Over 30 states earmark their cigarette tax for a variety of uses ranging from public education programs to new health care programs. As the federal cigarette tax rises and national tobacco consumption falls these state earmarked programs will be put in fiscal jeopardy.

There are also nine states where local governments impose local excise taxes on cigarettes. In FY 1993, nearly $195 million was generated in local cigarette taxes. These funds could fall by about $26 million due to a 75 cent/pack cigarette tax increase.

THE IMPACT ON THE CONSUMER PRICE INDEX AND FEDERAL SPENDING OF A 75-CENT CIGARETTE TAX INCREASE

There are various estimates of the additional revenues that would accrue to the federal government from a 75-cent/pack cigarette tax hike. The most widely used estimate is $10.4 billion. This is an estimate of the net additional revenues from such a tax increase. Actual revenues would be considerably less than half this amount. This is why.

The tobacco component of the Consumer Price Index (CPI) is about two percent (1.7458 percent). Therefore, a 75-cent per pack tax increase on cigarettes would translate into about a one percent increase in the CPI. A one percent increase in the CPI will lead to a one percent increase in all indexed spending at the federal level -- Social Security, food stamps, federal pension programs and so on. At 1993 spending levels, this would amount to $5.6 billion in additional obligated federal spending and loss of revenue from income tax indexing.

Various other off-sets would occur as tobacco workers are displaced by the cigarette tax increase, and as a result receive unemployment compensation and pay less federal taxes. A reasonable estimate of these losses is $2.4 billion.

Therefore, actual revenues from a 75-cent cigarette tax increase would be $10.4 billion minus $8.06 billion in spending and revenue off-sets. This comes to $2.34 billion which is less than half of the estimated revenue yield.

There has been some discussion of taking tobacco products out of the CPI for the purpose of indexing federal programs. This is hypocritical. The current marketbasket of goods for computing the CPI is longstanding. Its administration has been consistent, professional and credible. Indeed, during the recent spate of cigarette price reductions, government officals have touted the fall in the Producer Price Index (PPI). To include tobacco in the price index when it produces good news and to exclude it when it produces bad news would politicize and seriously devalue a supposedly objective standard.

A CIGARETTE TAX INCREASE PROVIDES FOR AN UNSTABLE REVENUE BASE

From 1980 to 1992, cigarette consumption (packs) has fallen by about 20%. In consequence, cigarette tax revenues could hardly be expected to be stable over the foreseeable future. Through the 1980's, the percentage of revenues generated by excise taxes dropped steadily. A March 1993 study by the Council of State Governments called excise taxes on tobacco and alcohol a "worn-out tax source," and urged policy makers to look elsewhere for revenues to fund a range of programs and spending. The CSG study offered the following advice, "states that raise cigarette taxes may see a one time spurt but in the long run cigarette tax revenues will fail to keep pace with increases in personal income."

This problem will be compounded with a federal cigarette tax increase. While a large cigarette tax may lead to a short run spurt in revenues (and this may not be much given the CPI argument above), in the long run the cigarette revenue base will fall and with it the abilty to fund health insurance reform. The medical insurance demands of the American public are likley to accelerate over the years but cigarette consumption will fall. The result will be a future sea of red ink.

A 75 cent/pack tax increase is expected to drop cigarette consumption by 12% within a year or so. In addition, cigarette consumption is expected to drop each year due to the long run or secular reduction in demand. This long run decline due to the receding popularity of smoking has meant about a 2% reduction in cigarette demand per year. However, a large tax increase could boost this to a 4% yearly decline. If so, cigarette consumption in 7 years would fall by 30%. This would surely mean rising deficits for health care reform. The irony is that health care reform should be staked to a growing revenue base -- not one that shrinks with time.

CIGARETTE TAX INCREASES ARE REGRESSIVE AND UNFAIR

Raising cigarette taxes to help pay for health care reform violates the ability to pay principle of taxation. This is because excise taxes take a much larger percentage of revenue from lower-income individuals compared to upper-income groups. A 75 cent/pack tax increase would boost the federal cigarette taxes of a typical smoker by about $400. This is a rather large dent in the budget of a household with $15,000 annual income compared to a family with income in excess of $50,000. In addition, the smoking rate for those with incomes below $20,000 is 50% greater compared to those with incomes above $50,000.

Cigarette taxes are regressive, hitting hardest those people who are least able to pay - low and middle-income families. According to a March 1993 study by Peat Marwick, 54% of American familiees earn less than $30,000 per year. Yet, these families account for only 19% of family income -- but they pay a staggering 54% of all tobacco excise taxes.

In 1987, the Congressional Budget Office (CBO) analyzed the regressivity of federal and state excise taxes. The study included seven different products subject to excise taxes. CBO concluded that excise taxes are among the most regressive of all taxes and called the taxes on tobacco the "most regressive of all." The CBO study indicated that tobacco taxes, as a percentage of income, were 15 times greater for low-income persons compared with wealthy individuals.

EXCISE TAX REGRESSIVITY INDEX BASED ON CONGRESSIONAL BUDGET OFFICE STUDY

COMMMODITY	REGRESSIVITY INDEX*
TOBACCO	15.0 (as a % of income, tobacco taxes are 15 times higher for the low income compared to the high income group)
BEER	9.2
TELEPHONE	8.7
GAS	7.3
WINE	7.0
LIQUOR	6.9
AIRFARE	4.7

* SOURCE: "The Distributional Effects Of An Increase In Selected Federal Excise Taxes," Congressional Budget Office, January, 1987. The index is computed by the dividing the percentage of income taken by excise taxes for the CBO low income group (those below $6,000) and dividing by the correspondent percentage for the CBO high income group (those above $50,000).

SMOKERS PAY THEIR OWN WAY

Some have attempted to justify high cigarette taxes because of the alleged social costs that smokers impose on non-smokers. However, one must properly define the meaning of "social cost" as opposed to private cost. In economics, social cost means a case where the activity of one group of individuals imposes significant cost on another group. Classic cases would be environmental pollution where, for example, a firm uses a smoke stack that fouls the city's atmosphere.

This is opposed to private costs where activities on the part of an individual do not, generally, impose costs on others. In this case, the costs are mostly borne by individuals directly. There are no "spill-over" or social costs. Yet, over 50% of the alleged social costs attributed to smokers are private costs of smoking. They are comprised of "lost wages and productivity" of smokers. However, these alleged costs are borne by smokers not by "society."

To count these as social costs would be equivalent to saying that a worker's efforts is not his property but belongs to society. It is like saying we must prevent an "Einstein" from taking a vacation so he can keep inventing good things for the rest of society. This may have been a correct assesment for the old Soviet Union but not in the U.S.A. where human effort is the property of the individual not the state.

On the issue of private costs, there is much dispute over the size of these costs. Some studies show that smokers tend to miss more work days than non-smokers. But, smoking tends to be concentrated more among blue collar workers who have higher absenteeism rates for other reasons (boredom, poor work conditions, and so forth). Curiously, in some studies pipe and cigar smokers have been shown to have lower absenteeism rates than non-smokers. Yet, few would infer that their smoking preference was the cause.

The other major alleged source of social costs are the supposed medical costs that smokers impose on the rest of society. This claim is also false. To begin with 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.

If government programs such as Medicare and Medicaid are being over-used by smokers then one could possibly claim that smokers are inflicting social costs on non-smokers. However, the evidence seems to indicate the opposite. The Congressional Office of Technology Assesment (OTA) in a 1993 study claimed that smokers "cost" the federal, state, and local governments $8.9 billion in health care expenditures attributable to smoking-related illnesses. Smokers, however, 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 contrbute more than OTA claims smokers "cost" the government in health care expenditures.

Uwe Reinhart, a prominent Princeton University health economist sums it up best when he says that, "The only real argument left for taxing tobacco is that the government wants to punish people for their behavior. It's not a question of recouping health care costs." (Detroit News, October, 27,1993). In fact, Reinhart states that total lifetime health costs are actually lower for many smokers.

APPENDIX

ECONOMIC LOSSES TO THE UNITED STATES FROM INCREASING THE FEDERAL EXCISE TAX FROM $0.24 TO $0.99 PER PACK

Increasing the federal cigarette tax by $0.75 per pack would have a significant impact on the United States economy. Cigarette sales in the United States could fall by approximately 12%. Price Waterhouse estimates that 681,353 US residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 81,762 of these jobs would be lost if the federal cigarette tax is increased by $0.75 per pack.

In addition, the income created in the US tobacco sector is re-spent in the United States economy which stimulates other sectors. Price Waterhouse estimates that 1,601,164 United States jobs are created due to this expenditure-induced or ripple effect. Increasing the cigarette tax by $0.75 per pack would lead to a loss of 192,140 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 273,902 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette tax revenues. Total state cigarette tax revenues will drop by $855,936,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$119,088,000	19,521
Tobacco Manufacturing	$312,324,000	6,063
Tobacco Wholesale Trade	$180,288,000	5,570
Tobacco Retail Trade	$308,424,000	20,015
Tobacco Sector Suppliers	$1,020,744,000	30,593
TOTAL TOBACCO SECTOR	$1,940,868,000	81,762
EXPENDITURE INDUCED SECTORS	$6,064,632,000	192,140
TOTAL LOSSES	$8,005,500,000	273,902

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 $0.99 PER PACK

Increasing the federal cigarette tax by $0.75 per pack would have a significant impact on the Kentucky economy. Cigarette sales in Kentucky could fall by approximately 12%. Price Waterhouse estimates that 61,648 Kentucky residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 7,398 of these jobs would be lost if the federal cigarette tax is increased by $0.75 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 $0.75 per pack would lead to a loss of 9,107 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 16,505 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Kentucky cigarette excise tax revenues will drop by $2,232,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$31,625,256	5,190
Tobacco Manufacturing	$42,805,308	841
Tobacco Wholesale Trade	$3,048,684	112
Tobacco Retail Trade	$4,800,780	372
Tobacco Sector Suppliers	$28,449,732	883
TOTAL TOBACCO SECTOR	$110,729,760	7,398
EXPENDITURE INDUCED SECTORS	$202,429,380	9,107
TOTAL LOSSES	$313,159,140	16,505

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 $0.99 PER PACK

Increasing the federal cigarette tax by $0.75 per pack would have a significant impact on the Georgia economy. Cigarette sales in Georgia could fall by approximately 12%. Price Waterhouse estimates that 28,597 Georgia residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 3,432 of these jobs would be lost if the federal cigarette tax is increased by $0.75 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 $0.75 per pack would lead to a loss of 4,303 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 7,735 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Georgia cigarette excise tax revenues will drop by $10,233,600.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$7,058,496	1,154
Tobacco Manufacturing	$17,576,064	282
Tobacco Wholesale Trade	$5,007,216	149
Tobacco Retail Trade	$8,389,308	561
Tobacco Sector Suppliers	$42,800,556	1,286
TOTAL TOBACCO SECTOR	$80,831,640	3,432
EXPENDITURE INDUCED SECTORS	$128,657,040	4,303
TOTAL LOSSES	$209,488,680	7,735

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 $0.99 PER PACK

Increasing the federal cigarette tax by $0.75 per pack would have a significant impact on the North Carolina economy. Cigarette sales in North Carolina could fall by approximately 12%. Price Waterhouse estimates that 105,633 North Carolina residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 12,676 of these jobs would be lost if the federal cigarette tax is increased by $0.75 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 $0.75 per pack would lead to a loss of 18,566 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 31,242 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. North Carolina cigarette excise tax revenues will drop by $5,181,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$46,723,716	7,644
Tobacco Manufacturing	$130,237,968	2,625
Tobacco Wholesale Trade	$9,219,708	176
Tobacco Retail Trade	$7,867,128	555
Tobacco Sector Suppliers	$53,560,980	1,676
TOTAL TOBACCO SECTOR	$247,609,500	12,676
EXPENDITURE INDUCED SECTORS	$441,958,104	18,566
TOTAL LOSSES	$689,567,604	31,242

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 $0.99 PER PACK

Increasing the federal cigarette tax by $0.75 per pack would have a significant impact on the South Carolina economy. Cigarette sales in South Carolina could fall by approximately 12%. Price Waterhouse estimates that 17,218 South Carolina residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 2,066 of these jobs would be lost if the federal cigarette tax is increased by $0.75 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 $0.75 per pack would lead to a loss of 2,776 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 4,842 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. South Carolina cigarette excise tax revenues will drop by $3,420,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$8,355,384	1,367
Tobacco Manufacturing	$1,149,072	25
Tobacco Wholesale Trade	$2,078,208	76
Tobacco Retail Trade	$4,426,512	324
Tobacco Sector Suppliers	$8,422,020	274
TOTAL TOBACCO SECTOR	$24,431,196	2,066
EXPENDITURE INDUCED SECTORS	$74,703,876	2,776
TOTAL LOSSES	$99,135,072	4,842

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 $0.99 PER PACK

Increasing the federal cigarette tax by $0.75 per pack would have a significant impact on the Virginia economy. Cigarette sales in Virginia could fall by approximately 12%. Price Waterhouse estimates that 44,537 Virginia residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 5,343 of these jobs would be lost if the federal cigarette tax is increased by $0.75 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 $0.75 per pack would lead to a loss of 10,055 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 15,398 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Virginia cigarette excise tax revenues will drop by $5,600,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$8,682,492	1,425
Tobacco Manufacturing	$79,852,536	1,459
Tobacco Wholesale Trade	$4,342,848	129
Tobacco Retail Trade	$8,123,964	531
Tobacco Sector Suppliers	$60,744,144	1,799
TOTAL TOBACCO SECTOR	$161,745,984	5,343
EXPENDITURE INDUCED SECTORS	$270,339,528	10,055
TOTAL LOSSES	$432,085,512	15,398

These esumates for job and compensauon loss are based on a comprehensive study of employment and compensauon in the U.S. tobacco industry prepared by Price Waterhouse in 1992. The economic loss esumates 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 $0.99 PER PACK

Increasing the federal cigarette tax by $0.75 per pack would have a significant impact on the Tennessee economy. Cigarette sales in Tennessee could fall by approximately 12%. Price Waterhouse estimates that 21,614 Tennessee residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 2,594 of these jobs would be lost if the federal cigarette tax is increased by $0.75 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 $0.75 per pack would lead to a loss of 3,641 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 6,235 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Tennessee cigarette excise tax revenues will drop by $8,988,000.

ECONOMIC LOSSES

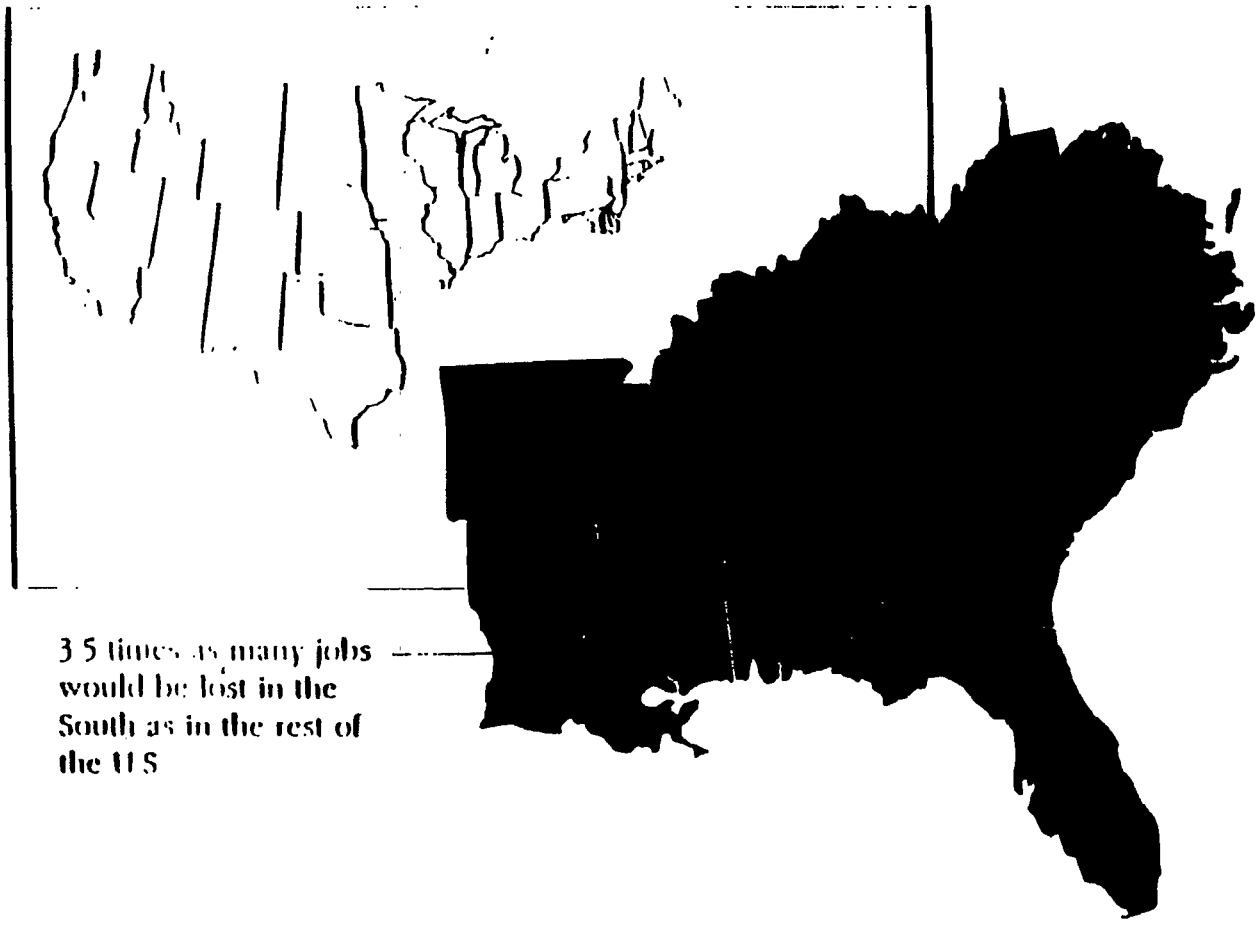
SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$7,924,632	1,304
Tobacco Manufacturing	$6,636,264	204
Tobacco Wholesale Trade	$4,231,260	149
Tobacco Retail Trade	$6,259,104	442
Tobacco Sector Suppliers	$13,225,848	495
TOTAL TOBACCO SECTOR	$38,277,108	2,594
EXPENDITURE INDUCED SECTORS	$97,024,044	3,641
TOTAL LOSSES	$135,301,152	6,235

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.

Proposed federal tobacco taxes unfairly target the South.

As a percentage of state population, the jobs lost in the tobacco sector of the economy are 3.5 times greater in the South than the rest of the U.S.

Total tobacco sector job loss resulting from a 75¢ increase in the cigarette tax is estimated to be 81,762.*



*Data is based on DC&T analysis of Price Waterhouse study of employment and compensation in the U.S. tobacco industry

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Job loss resulting from a 75¢ per pack increase in the federal cigarette tax (by region)

WEST	TOTAL	6,969
Alaska		97
California		5,044
Hawaii		208
Nevada		245
Oregon		526
Washington		849

ROCKY MOUNTAIN	TOTAL	1,403
Colorado		670
Idaho		187
Montana		156
Utah		294
Wyoming		96

SOUTHWEST	TOTAL	4,833
Arizona		584
New Mexico		234
Oklahoma		627
Texas		3,388

SOUTH	TOTAL	39,576
Alabama		841
Arkansas		451
Florida		2,863
Georgia		3,432
Kentucky		7,398
Louisiana		936
Mississippi		523
North Carolina		12,676
South Carolina		2,066
Tennessee		2,594
Virginia		5,313
West Virginia		450

MIDWEST	TOTAL	2,366
Kansas		521
Missouri		1,180
Nebraska		363
North Dakota		153
South Dakota		116

GREAT LAKES	TOTAL	14,64(
Illinois		3,09
Indiana		1,29
Iowa		63
Michigan		1,67
Minnesota		96
Ohio		2,69
Pennsylvania		3,11
Wisconsin		1,18

NEW ENGLAND	TOTAL	3,68
Connecticut		1,39
Maine		28
Massachusetts		1,51
New Hampshire		20
Rhode Island		17
Vermont		10

MID-ATLANTIC	TOTAL	8,289
Delaware		13
District of Columbia		18
Maryland		1,14
New Jersey		1,94
New York		4,87(

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Reductions in Employment in the Tobacco and Expenditure-Induced Sectors Associated with a 12% Decline in the Number of Jobs (1990)

STATE	Tobacco	Expenditure Induced	Total
ALABAMA	841	3,056	3,897
ALASKA	97	231	328
ARIZONA	583	1,548	2,131
ARKANSAS	455	1,374	1,829
CALIFORNIA	5,043	9,960	15,003
COLORADO	670	1,752	2,422
CONNECTICUT	1,399	2,121	3,520
DELAWARE	134	564	698
DIST. OF COLUMBIA	188	343	531
FLORIDA	2,863	8,174	11,037
GEORGIA	3,432	4,303	7,735
HAWAII	208	236	444
IDAHO	188	551	739
ILLINOIS	3,092	9,275	12,367
INDIANA	1,292	4,091	5,383
IOWA	634	1,924	2,558
KANSAS	523	1,745	2,268
KENTUCKY	7,398	9,107	16,505
LOUISIANA	937	1,896	2,833
MAINE	286	639	925
MARYLAND	1,148	2,158	3,306
MASSACHUSETTS	1,515	3,880	5,395
MICHIGAN	1,672	6,677	8,349
MINNESOTA	962	2,822	3,784
MISSISSIPPI	523	1,993	2,516
MISSOURI	1,180	2,998	4,178
MONTANA	155	386	541
NEBRASKA	363	637	1,000
NEVADA	246	282	528
NEW HAMPSHIRE	202	819	1,021
NEW JERSEY	1,948	7,556	9,504
NEW MEXICO	234	402	636
NEW YORK	4,870	23,404	28,274
NORTH CAROLINA	12,676	18,566	31,242
NORTH DAKOTA	153	180	333
OHIO	2,691	9,823	12,514
OKLAHOMA	626	1,379	2,005
OREGON	527	2,000	2,527
PENNSYLVANIA	3,114	7,458	10,572
RHODE ISLAND	180	514	694
SOUTH CAROLINA	2,066	2,776	4,842
SOUTH DAKOTA	145	205	350
TENNESSEE	2,594	3,641	6,235
TEXAS	3,388	9,178	12,566
UTAH	294	854	1,148
VERMONT	101	336	437
VIRGINIA	5,344	10,055	15,399
WASHINGTON	849	3,016	3,865
WEST VIRGINIA	451	1,175	1,626
WISCONSIN	1,188	3,853	5,041
WYOMING	96	224	320
UNITED STATES	**81,764**	**192,137**	**273,901**

Note: The Tobacco Sector is comprised of the Core Sector and the Supplier Sector.

Number of People Employed in the Tobacco and Expenditure-Induced Sectors (1990)

STATE	Tobacco	Expenditure Induced	Total
ALABAMA	7,006	25,466	32,472
ALASKA	805	1,929	2,734
ARIZONA	4,859	12,903	17,762
ARKANSAS	3,790	11,453	15,243
CALIFORNIA	42,026	82,997	125,023
COLORADO	5,585	14,603	20,188
CONNECTICUT	11,659	17,671	29,330
DELAWARE	1,120	4,704	5,824
DIST. OF COLUMBIA	1,565	2,855	4,420
FLORIDA	23,860	68,120	91,980
GEORGIA	28,597	35,860	64,457
HAWAII	1,733	1,966	3,699
IDAHO	1,565	4,595	6,160
ILLINOIS	25,768	77,294	103,062
INDIANA	10,769	34,094	44,863
IOWA	5,285	16,034	21,319
KANSAS	4,361	14,545	18,906
KENTUCKY	61,648	75,891	137,539
LOUISIANA	7,808	15,803	23,611
MAINE	2,382	5,322	7,704
MARYLAND	9,563	17,984	27,547
MASSACHUSETTS	12,623	32,336	44,959
MICHIGAN	13,935	55,640	69,575
MINNESOTA	8,020	23,514	31,534
MISSISSIPPI	4,359	16,609	20,968
MISSOURI	9,835	24,984	34,819
MONTANA	1,289	3,215	4,504
NEBRASKA	3,023	5,306	8,329
NEVADA	2,051	2,348	4,399
NEW HAMPSHIRE	1,686	6,828	8,514
NEW JERSEY	16,234	62,970	79,204
NEW MEXICO	1,949	3,351	5,300
NEW YORK	40,580	195,035	235,615
NORTH CAROLINA	105,633	154,713	260,346
NORTH DAKOTA	1,275	1,503	2,778
OHIO	22,421	81,860	104,281
OKLAHOMA	5,214	11,489	16,703
OREGON	4,388	16,669	21,057
PENNSYLVANIA	25,949	62,148	88,097
RHODE ISLAND	1,498	4,281	5,779
SOUTH CAROLINA	17,218	23,133	40,351
SOUTH DAKOTA	1,212	1,709	2,921
TENNESSEE	21,614	30,340	51,954
TEXAS	28,234	76,486	104,720
UTAH	2,446	7,116	9,562
VERMONT	845	2,801	3,646
VIRGINIA	44,537	83,792	128,329
WASHINGTON	7,072	25,135	32,207
WEST VIRGINIA	3,759	9,790	13,549
WISCONSIN	9,903	32,110	42,013
WYOMING	796	1,864	2,660
UNITED STATES	**681,353**	**1,601,164**	**2,282,517**

Note: The Tobacco Sector is comprised of the Core Sector and the Supplier Sector.