

Congressional Research Service Study

Report To Congress On: Cigarette Taxes to Fund Health Care

Background: What Is the Congressional Research Service?

The Congressional Research Service is an independent research arm of the U.S. Library of Congress. It conducts research, analyzes legislation and provides information to Congressional committees, members of Congress and their staffs. Upon request, the Congressional Research Service assists Congressional committees in analyzing legislative proposals and issues, and in assessing the possible effects of these proposals and their alternatives.

At Issue: Analysis of the Plan to Raise Tobacco Taxes for Health Care

The Clinton Administration has proposed raising the federal excise tax on cigarettes by 75 cents per pack (a 300 percent increase) to help pay for the Administration's government-run health care plan. The Congressional Research Service has studied the proposal and the rationales for such as increase, as well as other effects and concerns about the tax.

Conclusions: The Congressional Research Service has concluded that:

- 1. Smokers already are paying their fair share in social costs at roughly current levels of taxes.**
- 2. The cigarette tax is a poor source for revenue to pay for health care.**
- 3. Better means to deter youth smoking exist than raising cigarette taxes**
- 4. The evidence on Environmental Tobacco Smoke (second-hand smoke) is weak.**

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-- Talking Points --

Research Arm of Congress Releases Study Critical of Proposal To Raise Cigarette Taxes

The Congressional Research Service, the independent research arm of Congress, has issued a report casting doubt on the wisdom of raising the federal cigarette tax to pay for President Clinton's plan for government-run health care.

1. Smokers Already Pay Their Fair Share in Social Costs -- Increased health costs, sick leave and other expenses smoking imposes on society do not justify the Clinton Administration's proposed 75 cents per pack cigarette excise tax hike, CRS says.

- CRS found that existing state and federal cigarette excise taxes, which average about 50 cents a pack, already cover average estimates of smoking's so-called "costs imposed by smokers on non-smokers."
- One estimate suggests smoking does not impose any extra costs on non-smokers. Rather, it provides net savings to the non-smoking population due to reduced drain on social security and pension payouts.
- The report cited a 1991 study by Willard G. Manning that found the net external cost per pack of cigarettes was about 16 cents for smokers. It also looked at a 1989 RAND Corporation study, which found that, in 1986, each smoker ends up costing society about 15 cents per pack of cigarettes -- which translates into 21 cents today because of inflation -- but still below the current 24-cents a pack federal tax, and considerably lower than the overall average of 50 cents a pack for all federal and state taxes.
- CRS also found the Manning Study made a "much stronger case" for taxing alcoholic beverages at a higher rate. "An alcohol tax would appear to be more efficient and more equitable: the best estimate of alcohol's net external cost exceeds current tax levels; alcohol taxes are also regressive, but less so than cigarette taxes," the CRS study found.

- The CRS report also found that the average smoker is aware of, or over-estimates, the health risks of smoking.

2. The Cigarette Tax Is a Poor Source Of Revenue For Health Care -- The CRS said the tax would bring in less and less money as fewer people smoke, and it would "finance a continually smaller share of health-care costs."

- The report characterized the proposal, saying "An increased cigarette tax as a method of financing health-care reform appears questionable on efficiency, budgetary and equity grounds."
- The report said that while a cigarette tax would raise considerable revenue, it would finance a continually smaller share of health care costs.
- The CRS study found that because of dropping consumption, tobacco tax revenues -- estimated at about \$11 billion in the first year of the increase - - would fall by about 10 percent over the next 15 years and eventually drop by one-third.
- According to CRS, the states levy an average of 26 cents per pack in state excise tax. "The 75 cent proposed federal tax will reduce consumption of cigarettes. As a result, states will lose 26 cents on every pack of reduced cigarette consumption...The state revenue loss grows from \$1 billion to about \$3.6 billion over (the 69-year-chart presented)."
- "Pleasure driving, many recreational activities, some dietary practices, and some occupations, to name just a few activities, involve the same actuarially-validate risks...Taxing such activities involves value judgments that are beyond the scope of economic analysis," CRS said.

3. Better Means to Deter Youth Smoking Exist Than Raising Cigarette Taxes -- The Congressional Research Service study finds that "non-tax mechanisms, such as educational programs and strengthened enforcement of existing laws restricting sales to minors, might be better suited to deal with the problem" (of youth smoking).

- CRS also said: "For those smokers who make poor decisions because of inadequate information, such as the young, increased education and regulation might be more effective market corrections and have fewer undesirable economic effects than a tax."
- According to CRS: "The President's budget proposal stressed the adoption of a cigarette tax to decrease youth participation as one of its rationales. Recent research suggests increased regulation and increased enforcement of existing regulations against sale of cigarettes to minors might be effective, and would avoid the adverse economic consequences that cigarette taxation imposes on the mature smoking population."

(Special Note: Practical experience shows that higher cigarette taxes do not discourage kids from smoking. Take Canada as an example: Canadian Health Minister Diane Marleau recently told Maclean's, Canada's weekly newsmagazine, that the government's decision to cut cigarette taxes in half will actually reduce consumption among young Canadians. She says that she has seen children as young as 12 buying smuggled cigarettes. "But if the government's plan works, she adds, it will end the smuggling trade and force children to rely on regular stores for their cigarettes -- where they will be forbidden to buy them until they turn 19. In that way, she claims, consumption among teenagers can be more readily controlled and will likely drop," Maclean's reported.)

4. The Evidence on Environmental Tobacco Smoke Is Weak -- According to CRS, "The epidemiological evidence on the health effects of passive smoking is far less certain than evidence on the effect of active smoking." Even if the uncertainties of overestimating and underestimating the so-called costs of passive smoking were weighed, CRS puts the costs from passive smoking "as low as zero to four cents per pack."

- But if the government tries to impose a higher cigarette tax based on the cost of passive smoking, "evidence suggests the majority of smokers will not be deterred by the tax." As a results, CRS says, "The majority of spouses and children of these undeterred smokers will not benefit from reduction of passive-smoking effects, but will be penalized because the tax will reduce their disposable family income. In this case, the tax would accomplish the opposite of what was intended."

- In examining the second-hand smoke issue, CRS noted that, "Most organisms have the capacity to cleanse themselves of some level of contaminants. It is for this reasons that public policy usually does not insist that every unit of air or water pollution be removed from the environment; the damage of low levels of pollutants is sufficiently small (through the self-cleansing process) that removal is not cost effective."

- In discussing claims that passive smoking has a significant cost to society, CRS counters that "Fist, as stated above, the epidemiological evidence for passive-smoking-related disease is weak." And CRS later notes: "Individuals undertake many activities that others find distasteful, and many, perhaps most, of them are not subject to government control."

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