

DRAFT/Bob Reese outline of remarks to suppliers

"Defeating a Federal Excise Tax -- A Strategy for Success"

I represent Philip Morris in Washington, and I'd like to tell you what's going on there and what we've been doing to protect the livelihoods of just about everyone in this room.

Some people seem to think President Clinton won't budge on his proposed 75-cent-a-pack cigarette tax. I'm here to tell you that the President can be moved -- and I'm here to tell you how he can be moved.

Mr. and Mrs. Clinton's health care plan, if passed, is likely to be the biggest new federal program since Social Security. I think the Clintons have been dreaming about universal health care since they first set their hearts on the White House.

But I'm afraid they may have been dreaming more about creating new entitlements and benefits than about how the country would pay for them. That's only natural for politicians. They need a vision to get motivated and to motivate other people to work for them and vote for them.

The trouble in this case is that they've essentially asked us to pay billions of dollars to make their dreams come true. And far too much of the cost will fall on the people

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in this room. The health care plan is supposed to benefit everyone. It's only fair that all Americans should contribute according to their ability to pay -- not according to their political vulnerability.

As the health care plan stands today, the only citizens who will be asked to pay a penny more in taxes are smokers. I think most of us who have studied the issue realize this isn't a realistic financing plan, but smokers are relatively easy targets in the current political environment.

One trouble with the plan is that millions of smokers won't be willing to pay those taxes. And they will find that "evading" cigarette taxes is considerably easier than evading income taxes. They can quit smoking, for example, or smoke less, or roll their own, or look for other ways to reduce the cost of enjoying a cigarette. All of these methods of "tax avoidance" will lower the revenue available to pay for a national health care system.

In fact, President Clinton says he wants people to smoke less. Quadrupling the federal excise tax on cigarettes is supposed to lower health care costs by reducing the number of smokers. But health care costs will continue to rise, even with major reform. No one disputes that. The President says he hopes only to *slow the rise* of health care costs.

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In testimony to the House Ways and Means Committee last November, Treasury Secretary Lloyd Bentsen said US cigarette consumption would drop 12 to 15 percent if the FET rose by 75 cents. Other experts agree with his prediction (American Lung Assoc. predicts 12% drop, 11/19/93).

If Mr. Bentsen is right, convenience stores would see significantly less revenue -- and would hire fewer people. Trucking companies with less cargo to ship, would need fewer drivers, fewer trucks, less diesel fuel, and so on. More warehouse space would stand empty, so more warehouse employees would lose their jobs.

Philip Morris would experience a significant drop in revenue -- and would be forced to spend significantly less with its vendors -- even its best vendors like you.

How can the government expect to cover rising costs with a declining source of revenue?

And once millions of Americans are enjoying subsidized medical care, what will happen when the new federal health care system runs short of money?

A huge lobby will have been created to preserve subsidized health care benefits. I can tell you from my years of experience on the hill that a lobby of this size

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supporting benefits this important will be almost difficult -- if not impossible -- to beat.

Think about how hard it is today to get the elderly -- even the wealthiest among them -- to give up a penny of Social Security benefits.

I predict we'll see the same kind of situation once national health care becomes a reality. The costs of health care -- and the pressure on the budget -- will be enormous. As a nation, we already spend about \$800 billion a year on health care, and that number is sure to top a trillion before too long.

The revenue raised by higher tobacco taxes won't come close to paying for national health care, and people are already asking for a piece of tobacco tax revenues for things unrelated to health care.

"Conversion" is a watchword among tobacco state representatives, for example. They want a significant portion of the FET revenue sent back to tobacco-producing regions to lessen the economic devastation of the higher tax. Billions would be spent to help tobacco farmers make the "conversion" to other products.

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While that might seem fair to a lot of people, it would obviously reduce the funds available to pay for a national health care system.

The tobacco tax won't be enough to pay the costs of universal health care. Alcohol dodged a bullet this time around, but the writing is on the wall: if Congress gets away with this 300 percent tax hike on cigarettes, they will go after other products in the near future. Alcohol is likely to be the next target.

The result of revenue shortfalls, I believe, are inevitable: more taxes. Once universal health care is in place, no politician will dare reduce health care benefits. There isn't a lot of fat that can be cut from other federal programs.

I predict that even higher taxes on cigarettes will be proposed. And higher taxes on other so-called "sins" such as beer and wine. Environmentalists will almost certainly propose higher taxes on gasoline and other fuels. A federal sales tax, a value added tax, has been proposed before and will be again.

In a House Ways and Means meeting last September, Congressman Jim Bunning of Kentucky asked Mrs. Clinton whether the administration would consider taxing other

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substances like caffeine, cholesterol, salt, sugar and alcoholic beverages.

"If there is a way that you can ever come up with to tax substances like the ones you just named, we'll be glad to look at it," she replied, "I've not seen any that would be realistically implemented."

If the people are willing to go along with tax hikes, I'm sure some people in Washington will be able to figure out how to get those taxes "implemented."

I think it's clear that if the moralists in government succeed with the tobacco tax hike, they'll come back for more.

Don't get me wrong. I think we need health care reform. But I also think it's got to be fair. The costs shouldn't fall on one group of consumers, one region of the country -- or one industry.

Quadrupling the federal tax on cigarettes is unfair for a lot of different reasons, and that gives us more ammunition to use against it when we speak with legislators.

Think about what a 15% drop in cigarette sales will mean to every state and locality that relies on its own cigarette

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excise tax revenues. Mayors and state legislators around the country are right to be worried about the resulting drop in their tobacco tax revenues and a new lack of funding for local and state programs.

The White House is proposing, in essence, to siphon money out of state and local coffers to pay for a federal program, leaving the cities, counties and states to make up the difference with cuts in services or higher state and local taxes.

Think about what a big tax increase will mean to people in lower- and middle-income brackets. President Clinton promised to make the federal tax system fairer and more progressive, but now he's proposed an excise tax hike. Excise taxes are the most regressive of all the taxes that might be used for health care. An excise tax on tobacco will hit lower-income Americans as much as ten times harder than those in upper income brackets.

How will legislators who vote for the tax explain that to their lower- and middle-income constituents?

Obviously, the President's FET proposal has created a furor around the country, and it has created a great deal of controversy in Washington.

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The House Ways And Means Committee held two full days of hearings on the issue and heard testimony from about 45 witnesses. The intense focus is a result of the pressure the Administration and the anti-smokers are putting on this issue.

Anti-smoking forces are using two main arguments to support the 75-cent increase.

The antis first argument is the supposed health benefits of a reduction in cigarette consumption. Our opponents say that smokers have to be stopped for their own good, and higher taxes are a reasonable way to stop them.

Antis also claim that smokers create extra health care costs to society, and therefore deserve to pay a higher percentage of health care costs.

When I speak with legislators, the argument comes down to a trade-off between the benefits of the economic activity generated by the tobacco industry versus the costs society pays for smoking.

The social costs of smoking are a myth. They can be useful only if we begin to compute and account for the so-called "costs" to society of such things as being female, having sickle cell anemia, or playing softball. Softball

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injuries cost the county about two billion dollars a year. The social cost argument just doesn't add up.

But the economic activity created by the tobacco industry is beyond debate.

It is huge.

A recent Price Waterhouse study showed that in 1990, more than 425,000 Americans worked in the tobacco business and earned more than seven and a half billion dollars in compensation. The economic ripple effect of these jobs employed another 1.6 million people who earned over fifty billion dollars in 1990.

Tax revenues from all of this tobacco-related economic activity put more than thirty-eight billion dollars into local, state and federal coffers.

Legislators appreciate the chance to spend that kind of money. When they hear the words "billions of tax dollars" they start listening carefully. We have the economic information broken down by state so you can explain to each of your legislators what the tobacco industry means to his or her constituents.

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A sudden and significant drop in cigarette consumption, like the one promised by Secretary Bentsen, would do real damage to state and local economies around the country.

As many as 275,000 jobs could be lost if the 75-cent increase becomes law. Southern states will be hit hardest.

Many southern states are experiencing economic devastation and widespread suffering right now because of military base closings. These base closings are causing the loss of about fifty-four thousand jobs in the southern United States. When you consider that the 75-cent tax hike will cost roughly 98,000 jobs in the south, you get some idea of the disaster we're talking about -- an economic calamity more than 75 percent worse than the base closings.

This one tax hike, on one product, could cause more economic hardship in the south than a change in military policy forty years in the making.

New rounds of unemployment will not help pay for health care. Instead, the newly unemployed will put more strains on the system because many of them will lose their current health care benefits when they lose their jobs. It will be up to the rest of us to cover their expenses.

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State governments will see their expenses go up to cover the costs of additional unemployment, including food stamps, Medicare and welfare.

Once lawmakers know how a decision will affect jobs in their districts, they usually know how to vote. But we all have to speak up and remind our legislators that our own jobs and those of our employees may be on the line.

Another argument that gets the attention of some federal lawmakers is the effect of a higher tobacco tax on the Consumer Price Index. The Consumer Price Index represents the price of the same shopping basket of goods over time. As the price of that basket of goods rises, the government adjusts spending upward on programs like Social Security, to make sure payments keep up with inflation.

A big jump in cigarette prices would mean a significantly higher Consumer Price Index, and thus significantly higher government expenses.

But even if we win the economic argument, the anti-smokers have another complaint: they say tobacco companies want minors to smoke. According to antis, another 75 cents in taxes will prevent young people from smoking. Proponents of the tax point to a significant drop in underage smoking in Canada after cigarette taxes there went sky-high.

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Antis admire the Canadian policy and want to see us join them in taxing cigarettes at \$2 a pack or more. The antis are lobbying the White House and Congress right now to get the 75-cent increase raised some more. Clinton forces say 75 cents is therefore a good compromise.

We've got to counter the anti-smoking position on underage smoking with strong arguments of our own. And we have to make sure people hear them.

Philip Morris, as many of you know, founded the "It's the Law" program to prevent minors from buying cigarettes. The results have been positive. The program provides educational materials to retailers to help them discourage minors from attempting to buy cigarettes and help their employees identify minors and stop them from buying cigarettes.

From a public policy standpoint, enforcing existing laws against sales to minors makes sense because it's effective and fair to everyone. Quadrupling the tax on all adult smokers to discourage a relatively small number of minors, as the antis propose, would not be fair.

Obviously, this is not going to be an easy fight. Smokers and tobacco companies are "politically incorrect" at

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the moment. Meanwhile, the idea of a national health care system is extremely popular -- especially among people who think they won't have to pay for it.

That's what we up against. Some of you may think there's no point arguing with Hillary Rodham Clinton. You may think this battle has been lost. It isn't true. It's lost only if we give up on it.

The situation is not hopeless. President Clinton got to where he is today -- and has accomplished things in Washington since his election -- by forging compromises among competing interests.

He won some of his most important votes in Congress in the final hours of negotiation and with the slimmest possible margins. His budget, for example, passed the Senate by exactly one vote.

Many of you will remember the proposed BTU fuel tax in the early days of the administration. It sounded for a while like the BTU tax was an idea whose time had come. But it would have struck a few oil-producing states especially hard, just as a tobacco tax will strike a few southern states.

The BTU tax is now forgotten.

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A single member of the House Ways and Means Committee, a Democrat from Oklahoma named Bill Brewster, carried the fight against the BTU tax -- and won.

President Clinton's national health care proposal is more complicated and controversial than the BTU tax or the federal budget. And the President wants a national health care system badly. I think he may consider it the most important initiative of his presidency. It's a cornerstone of what he wants to leave for posterity.

That means he won't be willing to walk away from the deal if it isn't exactly what he had in mind.

I predict -- no, I guarantee -- that Mr. Clinton will be willing to negotiate in the final hours leading up to votes on health care. If enough of us have voiced our feelings about the tobacco tax to our Representatives and Senators, we will definitely be able to come away from this fight with a more reasonable tobacco tax.

In fact, I think we can get the increase eliminated altogether.

Cigarettes are already taxed too much -- more than any other product. Smokers already pay thirteen billion dollars in additional taxes every year in this country.

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If we fail to stop this tax increase, we're all going to be hurt badly. No other single event I can think of would be as catastrophic to our businesses as passage of a 75-cent FET.

That's where you come in.

We've put together a detailed battle plan for this issue. We need each one of you to muster every force at your disposal, from your employees and your employees' families to your suppliers and their families. Have them get in touch with the people who represent them in Washington.

And after you've gotten your employees and suppliers to voice opposition to the FET, we need you to sit down again and come up with even more people who rely on your business for something. You can persuade them to contact their people in Washington.

If your business suffers, won't that affect your landlord? What about your lawyers and accountants? Every voice is important, but community leaders like yourselves can be heard on Capitol Hill.

How about your mayor and members of your city council? Is your business important to your community? How about

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your state legislators, who will see cigarette tax revenue shortfalls if consumption drops? Get them to write letters to the people in Washington.

What about your local chamber of commerce? Does it have the resources to mount a letter-writing campaign against this tax?

These are the kinds of efforts that can turn one voice into a chorus. Even though I speak for a large and powerful company, I have only one voice and it sometimes get swallowed up in the halls of Congress. We need more than one voice.

We need a firestorm . We need you. I know that you'll join us in this fight, because we really are all in this together.

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