

March 27, 1987

MEMORANDUM

TO: Pete Sparber
Susan Stuntz
Jeff Ross

FROM: Michael Forscey
John Jarvis

RE: Labor and Excise Taxes

The industry is once again entering the period of greatest risk in this session of Congress regarding proposed increases in excise taxes.

On the one hand, Democrats on both sides appear committed to instructing the committee to raise \$16-18 billion in new revenues, and the President, for his part, has promised to veto any tax increase.

In order to maximize our prospects for survival, we must seek to increase the visible opposition of the liberal interest groups, particularly labor, to excise taxes in order to nudge Ways and Means liberals in virtually any other direction.

Our hope should be to produce a "pincer" movement wherein tobacco state opposition on the floor, together with labor opposition (both in committee and on the floor), give Rostenkowski the excuse he needs to look elsewhere for revenue.

The labor movement (especially certain powerful affiliates), may very well have different priorities, both currently and as the situation develops, than we do. And because labor is not particularly adept at working Way and Means or particularly capable of making relevant choices among tax proposals, a substantial amount of work is necessary to position them to have any real effect on the process. For example, labor continues to ask for a delay in the 1987 rate reduction for upper income Americans even though prospects of that occurring have now vanished.

We believe that the best way to produce the result outlined above is through a carefully calculated education process in which we provide information on the true alternatives to excise taxes. It is for this reason that we believe careful coordination with Bob Diamond is essential.

We also think that we can help the Federation lobbyists in making a relatively stronger effort in this regard by effectively marketing the Mitchell report to affiliated unions so that they become our internal federation allies. All of this will be done above board and in conjunction with McGlotten, who will

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be pleased to help under the right circumstances but will be whipsawed unless his constituents are moving in one direction.

We want to emphasize that there are no guarantees that any of this can produce the desired result at the moment of truth. We are convinced, however, that the effort is worthwhile, low risk, and a natural extension of our long term strategy on excise taxes.



MAF

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