-- BRIEFING BOOK --

TOBACCO TAXES AND HEALTH CARE FINANCING

February 1994

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Key Features of Competing Reform Plans

Clinton: HR 3600, S 1757	Chafee-Thomas: S1770, HR 3704	Cooper-Grandy-Breaux: HR 3222, S 1579	McDermott-Wellstone HR 1200, S 491	Nickles-Stearns: S 1743, HR 3698	Gramm: 9/28/93 Outline	Michel: HR 3080
Structure/Purchasing Pools						
Mandatory participation by employers with under 5,000 workers; regional alliances would have exclusive geographic territories.	Voluntary participation by small employers with under 100 workers; more than one cooperative could compete in same geographic area.	Mandatory participation byself-employed individuals and employers with under 100 workers; states can increase employer size to cover up to 50 percent of the population an area. Cooperatives would have exclusive territories.	No purchasing pools. State governments would be primary purchasers of health care services.	No purchasing pools. Individuals would be encouraged to buy their own insurance through new tax credit system.	No purchasing pools. Individuals encouraged to pay for non-catastrophic costs with tax-advantaged medical savings accounts.	Federal tax restrictions eased to facilitate employer participation in voluntary pools, state-sponsored plans. Individuals encouraged to pay for services with medical savings accounts.
Mandates/Subsidies						
Mandates employers contribute premiums equal to 80 percent of average-priced plan; individuals pay remainder. Subsidies for small businesses with under 75 workers and individuals with incomes up to 150 percent of poverty level.	Individuals must obtain insurance coverage on phased-in basis, through a cooperative or direct enrollment in the plan. Subsidies phased in for those with incomes up to 240 percent of the poverty line by 2005, as savings become available.	Employers required to offer (but not pay for) coverage to their employees; Medicaid reformed to cover low-income persons up to 200 percent of sated-adjusted poverty line.	National health insurance system financed primarily through income taxes.	Individuals required to buy insurance or face tax penalty; tax credits for those whose health expenses exceed 5 percent of income.	Employer must offer (but not pay for) at least three plans; federal subsidies available to high-risk individuals who would otherwise pay more than 150 percent above actuarial rate; tax credit available for low-income individuals.	Employers required to offer (but not pay for) minimum coverage to employees; state option to expand Medicaid.
Benefits						
National standardized benefits package determined in statute; interpreted and updated by national health board with approval by Congress.	Benefit guidelines outlined in statute; contents would be specified by a benefits commission and subject to congressional approval.	Benefits would be determined by national health board subject to congressional approval.	Benefits defined in statute; updated by national health board.	Actuarially defined package of benefits.	No provision.	Actuarially defined standard of coverage for standard and catastrophic plans, determined by the National Association of Insurance Commisioners.
Cost Containment						
National budget limits average premium increases to overall inflation by 1999 as a "backstop" to market forces; budget targets established for each regional alliance by national health board.	Relies on increased competition through insurance reforms; limiting tax deductibility to average of low-cost plans.	Relies on increased competition through insurance reforms; limiting tax deductibility to lowest-cost plan.	National global budget allocated to states; states negotiate fees with health providers in accordance with budget.	Relies on increased competition through insurance reforms; increased consumer choice.	Relies on increased competition through insurance reforms; creation of medical savings accounts.	Incremental measures include premium rating bands and limits onpremium increases for small employers, malpractice reform, medical savings accounts.
Tax Treatment of Benefits						
Employer deduction preserved; employee exclusion from income limited to standard benefit package, but employees may exclude costs existing additional benefit cost for another 10 years.	Employer deduction and employee income exclusion limited to the average cost of the lowest-priced one-half of plans offered in a purchasing cooperative area.	Employer deduction limited to cost of least costly plan in a purchasing cooperative area; excise tax imposed on contributions above this amount.	Present system replaced with taxes on individual, corporate income.	Employee income exclusion replaced with tax credits for individuals and families based on income (e.g., tax credit equals 75 percent of costs if health costs exceed 20 percent of income).	Present system maintained for employed; tax credit for self employed gradually increased to the national average that employers contribute.	Present system maintained for employed; tax credit for self employed and uninsured increased to 100 percent of costs.
Federal Cost Financing						
$332 billion in new federal spending from 1995 to 2000; financed through Medicare/Medicaid savings, tobacco tax, $24 billion "corporate assessment" and other sources.	$213 billion over six years; financed through savings from Medicare and Medicaid.	$25 billion per year; financed through capping tax deduction, Medicare savings.	Over $530 billion per year in new federal spending; sources include payroll tax, increase in corporate and personal income taxes, tobacco tax,	$133 billion in lost tax revenue between 1997 and 1999; offset by Medicare and Medicaid savings.	Phased in costs reach $52 billion in 1999; offset primarily by Medicare and Medicaid savings.	$20 billion in new federal spending over five years; sources not specified.

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The Case Against Consumer Excise Taxes

There has been much talk recently among some members of the Administration and some Members of Congress that tax increases are required to deal not only with the federal budget deficit, but to finance reform of the U.S. health care system. A solution to the nation's fiscal problems must be constructed on the basis of equity: All members of society should pay their fair share.

Raising consumer excise taxes to help reduce the enormous budget deficit or to pay for health care would further burden low- and middle-income families already paying more than their fair share of taxes.

Raising consumer excise taxes is unfair and unwise fiscal policy.

- **Consumer excise taxes are regressive,** hitting hardest those people who are least able to pay -- low- and middle-income families.

- **Consumer excise taxes are arbitrary and unfair,** discriminating against consumers of selected goods and services. Taxes should be distributed equitably, and based on ability to pay.

- **Consumer excise taxes reduce consumer spending power.** As a result, low- and middle-income families in particular have less income available for expenditures and/or savings.

- **Consumer excise taxes reduce economic growth.** According to many economists and business organizations, consumer excise taxes weaken the competitiveness of American business and hinder economic growth. By decreasing the overall sales of selected goods and services, excise taxes reduce available funds for capital investment.

- **Increased consumer excise taxes would signal a reverse in the momentum to restore equity to the federal tax system.** Gains that low- and middle-income families achieved through tax reforms in the mid-1980s and recent efforts by the Clinton administration to move toward a tax system that relieves the middle class tax burden and makes the wealthy and corporations pay their fair share will be undermined.

- **Raising consumer excise taxes is bad tax policy.** Financing progressive government through regressive means forces a few Americans to shoulder the tax burden of the entire society.

Who Pays Consumer Excise Taxes?

- Individuals -- not corporations -- pay consumer excise taxes.

- Anyone who buys gasoline, alcohol or tobacco products pays a consumer excise tax.

- A 1987 Congressional Budget Office study states that excise taxes are among the most regressive of all taxes, and calls tobacco taxes the "most regressive of all."

- Excise taxes are not levied based on one's ability to pay. Thus, they adversely impact poor and middle-income individuals as well as the elderly.

- Consumer excise taxes particularly hurt Blacks, Hispanics and other minorities as these groups have higher levels of poverty and unemployment, and thus are more vulnerable to regressive taxes.

- Rural Americans pay a significantly higher percentage of their income in consumer excise taxes than do residents in urban areas. Specifically, rural Americans shoulder a 44 percent higher tax burden in tobacco excises alone. (Ekelund and Long, Excise Taxes and the Rural Taxpayer: Losing Ground in the '80s and '90s?, commissioned by the American Agriculture Movement, March 1993.)

- Working women also bear a greater tax burden than others. With the rise in women joining the workforce, and rising number of families headed by women, increasing numbers of women pay more than their fair share of taxes. (Lyons and Colvin, Women and Children First: An Analysis of Trends in Federal Tax Policy, prepared for the Coalition of Labor Union Women, May 1990.)

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Consumer Excise Taxes and Rural Americans

Consumer excise taxes place a greater burden on rural taxpayers than on their urban counterparts. Many low- and middle-income families reside in rural areas. These rural households had $23,841 in annual earnings in 1989, compared to $32,478 for urban households.

A study commissioned by the American Agriculture Movement found that during the 1980s the situation for rural Americans worsened. On average, in 1989, rural households had a 34 percent greater consumer excise tax burden compared to urban Americans, up by more than 10 percent from 1984.

When specific items were examined, the study found that rural families, including farmers, have an excise burden that is:

- 52 percent higher on gasoline and motor fuel;
- 44 percent higher on tobacco products;
- 26 percent higher on utilities;
- 19 percent higher on insurance; and
- 8 percent higher on all other excises.

As the nation's farmers and rural families struggle to survive, higher consumer excise taxes place a greater burden on the backs of those least able to afford it.

Consumer Excise Taxes and African-Americans

African-Americans, based on their share of the national income, bear a much higher consumer excise tax burden than other Americans.

While only 11.3 percent of all families are African-American, fully 36 percent of black families are in the lowest income quintile.

A recent study commissioned by the A. Philip Randolph Institute, "Fair Taxes: Still a Dream for African-Americans," concluded that federal tax policy over the last decade has increased the burden of taxation on those least able to pay, while cutting the tax burden on the wealthy.

Specifically, the study found that:

- "An African-American family, with both parents working, two children and an income of $25,000, will pay an almost six times larger share of its income in federal consumer excise taxes than a family making $250,000 per year;" and

- federal payroll taxes will take an almost four times greater share of income from an African-American, female-headed family making $14,000 than from a family making $250,000 per year."

Further, the study found that for the poorest 20 percent of the population, compared to the richest one percent of Americans, the situation worsened in the 1980s, with the lowest income group having 10 times greater a share of their income going to consumer excise taxes in 1992, up from seven times higher in 1980.

Excise Taxes and Working Women

More and more women are heading low- and middle-income American households. Although the number of working women has increased to 56 million, or 45.2 percent of the current workforce, their economic condition has not improved.

- Women now represent almost two-thirds of all adults living in households with incomes below $10,000;
- Women currently hold 60 percent of the minimum wage jobs in the United States; and
- The poverty rate for female-headed households is five times greater than for families with both a husband and wife present.

As a result, more and more women are being unfairly burdened by the regressive nature of consumer excise taxes.

A recent study commissioned by the Coalition of Labor Union Women indicates that women bear a disproportionate share of America's tax burden under the current federal tax system.

According to the study, a single mother-headed household with a median income of $8,360 a year pays 14 times as large a share of its income on consumer excise taxes than does a family earning almost $100,000 annually. Such regressive and unfair tax policies clearly discriminate against families headed by women.

Consumer Excise Taxes, Hispanics and Health Care Reform

Hispanics are the fastest growing segment of the American population. According to the 1990 census, Hispanics will be the largest minority in the U.S. by the year 2020.

At the same time, Hispanic family income as a percentage of white family income declined in the 1980s, falling from 73.1 percent in 1980 to just 71.5 percent in 1990. As a result, consumer excise taxes take a much larger share of income from Hispanics than from white Americans.

A recent study by the Labor Council for Latin American Advancement (LCLAA), "Hispanics and Taxes: A Study in Inequality," found that compared to the wealthiest households in our society (those with incomes over $250,000 per year), a Hispanic family of four with a median income of $18,571 in 1990 had a tax burden:

- six times greater on gasoline;
- 14 times greater on tobacco products;
- seven times higher on telephone services; and
- six times greater on beer and wine.

In another study on health insurance and Hispanics, jointly sponsored by LCLAA and the National Council of La Raza, researchers found that 75 percent of Hispanic men and 90 percent of Hispanic women had incomes below $25,000 annually. Based on these findings, the study concluded that the impact of rising insurance premiums and out-of-pocket costs were particularly unfair for Hispanics and the organizations issued a set of principles for health care reform, which included a commitment to progressive financing.

"FEDERAL HEALTH CARE REFORM
WILL AFFECT STATE REVENUES"

Federation of Tax Administrators
FTA Bulletin B412, Dec. 28, 1993

The U.S. Department of the Treasury recently asked the Federation of Tax Administrators (FTA), an organization of state tax commissioners, to assess the impact of the Clinton Administration's health care reform proposal on state revenues.

FTA reviewed three of the health plan's elements most relevant to state governments: the effects of the proposed 75 cents-per-pack cigarette excise tax increase; the effects on state income tax receipts; and the effect on states' receipts from health and accident insurance premiums. Overall, FTA concluded that "federal health reform will affect state revenues." Specifically, FTA found that:

- "The largest impact of the President's proposal is caused by the $.75 per pack increase in the federal cigarette tax." FTA estimates that "this increase would lead to a direct revenue loss of $878 million in state cigarette revenues in the first year, and a loss of $4.2 billion over a five year period."

- Revenue decreases vary on a state-by-state basis (*attached*) with the most significant losses projected for core tobacco-producing states, including Kentucky, North Carolina, South Carolina, Georgia, West Virginia, Virginia and Tennessee. Therefore, the Southeastern region of the United States would disproportionately shoulder the burden of health care reform, in much the same way as they would lose jobs.

- Increased excise taxes will reduce income elsewhere in the economy and will cause income tax receipts to decline. FTA estimates that the revenues lost from this factor would amount to $619 million in the first year and $2.8 billion over five years.

Thus, the proposed $.75 cents-per-pack federal cigarette excise tax increase would have a severe, negative impact on the states' ability to use cigarette taxes as revenue source in the future.

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Net Impact of $0.75/Pack Federal Cigarette Tax Increase on State Revenues

($1,000)

STATE	Excise Tax Loss	Income Tax Offset*	Total Net Loss	5-Year Total (1995-99) Excise Tax Loss	5-Year Total (1995-99) Income Tax Offset*	5-Year Total (1995-99) Total Net Loss
ALABAMA	$8,563	10,348	18,911	39,342	44,339	83,682
ALASKA	1,842	0	1,842	8,873	0	8,873
ARIZONA	7,386	10,925	18,311	36,887	50,763	87,650
ARKANSAS	11,331	9,520	20,851	53,497	41,765	95,262
CALIFORNIA	80,176	98,875	179,051	363,836	417,167	781,003
COLORADO	7,715	6,899	14,614	35,902	29,901	65,803
CONNECTICUT	15,931	5,523	21,454	75,214	24,149	99,363
DELAWARE	2,709	3,263	5,972	13,611	15,236	28,847
DIST. OF COLUMBIA	3,329	1,932	5,262	15,717	8,430	24,147
FLORIDA	54,377	0	54,377	260,339	0	260,339
GEORGIA	11,988	21,905	33,893	57,764	98,384	156,148
HAWAII	4,503	3,363	7,866	25,774	17,748	43,522
IDAHO	2,419	4,087	6,506	12,889	20,233	33,123
ILLINOIS	58,245	14,269	72,514	274,984	62,427	337,411
INDIANA	15,907	11,992	27,899	75,976	53,352	129,329
IOWA	10,773	11,060	21,834	47,827	45,650	93,477
KANSAS	7,592	8,863	16,454	37,476	40,662	78,138
KENTUCKY	2,933	20,860	23,793	14,891	98,793	113,684
LOUISIANA	11,460	13,424	24,884	54,591	59,547	114,138
MAINE	6,895	5,588	12,482	32,551	24,475	57,026
MARYLAND	22,335	11,617	33,952	105,448	50,848	156,296
MASSACHUSETTS	34,456	13,539	47,995	162,673	59,111	221,784
MICHIGAN	32,365	21,921	54,286	152,648	96,179	248,827
MINNESOTA	19,944	14,108	34,052	94,159	61,734	155,893
MISSISSIPPI	6,854	7,365	14,219	35,156	35,135	70,291
MISSOURI	15,156	18,064	33,220	71,554	79,432	150,986
MONTANA	1,716	3,656	5,371	8,100	16,074	24,174
NEBRASKA	6,226	4,514	10,740	29,393	19,786	49,179
NEVADA	5,752	0	5,752	27,139	0	27,139
NEW HAMPSHIRE	5,853	0	5,853	29,228	0	29,228
NEW JERSEY	28,982	19,531	48,513	128,047	80,198	208,246
NEW MEXICO	3,023	4,404	7,428	14,273	19,356	33,629
NEW YORK	96,332	49,889	146,222	454,796	217,812	672,608
NORTH CAROLINA	6,839	40,787	47,626	36,828	204,553	241,381
NORTH DAKOTA	2,628	2,465	5,094	12,409	10,782	23,191
OHIO	40,039	39,329	79,368	189,031	172,698	361,729
OKLAHOMA	8,884	10,255	19,139	45,418	48,710	94,128
OREGON	13,599	11,774	25,373	64,200	51,579	115,780
PENNSYLVANIA	44,422	15,508	59,930	213,446	69,229	282,675
RHODE ISLAND	5,289	3,619	8,907	24,968	15,839	40,806
SOUTH CAROLINA	4,601	16,947	21,548	24,823	85,103	109,926
SOUTH DAKOTA	1,876	0	1,876	8,929	0	8,929
TENNESSEE	10,149	0	10,149	46,901	0	46,901
TEXAS	73,360	0	73,360	379,486	0	379,486
UTAH	4,199	4,255	8,454	23,696	22,243	45,940
VERMONT	1,857	2,940	4,797	8,768	12,923	21,690
VIRGINIA	2,077	19,039	21,116	9,599	82,241	91,839
WASHINGTON	24,984	0	24,984	117,950	0	117,950
WEST VIRGINIA	4,711	6,441	11,152	24,706	31,400	56,107
WISCONSIN	22,687	14,782	37,469	107,108	64,745	171,853
WYOMING	751	0	751	3,431	0	3,431
U.S.	$878,022	619,445	1,497,467	$4,192,253	2,760,735	6,952,988

Source: Federation of Tax Administrators

* Calculated using the highest marginal income tax rate in each state.

The Impact on the Consumer Price Index and Federal Spending of a 75-Cent Cigarette Excise Tax Increase

There are various estimates of the additional revenues that would accrue to the federal government from a 75-cent increase in the cigarette excise tax. 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 tax increase on cigarettes would translate into a one percent increase in the CPI, given the current price of cigarettes. 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 additional increases in federal spending would occur as tobacco workers are displaced by a cigarette tax increase, and as a result receive unemployment benefits and pay less income taxes. (There also would be less state excise tax revenue as cigarette consumption declines.) A reasonable estimate of these losses is $2.46 billion.

Therefore, actual federal revenues from a 75-cent cigarette tax increase would be: $10.4 billion - $8.06 billion = $2.34 billion. This is less than half of the estimated gross revenues.

There has been some discussion of taking tobacco products out of the CPI for the purpose of indexing federal programs. This makes no sense whatsoever. In fact, Patrick Jackman, the chief economist for the CPI division of the Bureau of Labor Statistics, recently indicated that the bureau is opposed to measures that would remove tobacco from the CPI. According to Jackman, "The CPI is supposed to represent expenditure patterns. You can't just unilaterally exclude something here if people are still spending their money on tobacco."

The marketbasket of goods for computing the CPI is longstanding and widely followed by the economics profession and financial markets as a reliable indication of inflation. Its administration has been consistent, professional and credible. Indeed, during the recent spate of cigarette price reductions, government officials proudly touted the fall in the Producer Price Index (PPI) as a result of a decline in cigarette prices. To include tobacco in the PPI when it produces good news and to exclude it when it produces bad news would be the height of hypocrisy and would politicize and seriously devalue an economically objective standard.

Indexing the Cigarette Excise Tax to Inflation

An automatic increase -- whether in spending for government services or in taxes to raise revenue for such spending -- is bad public policy because it allows lawmakers to evade their responsibility to review carefully and justify all changes in spending and taxation.

- Democrats who are trying to shed their "tax and spend" label should be particularly cautious when considering proposals to index cigarette excise taxes -- or any other tax -- to inflation. Indexing is simply another license to "tax and spend" without having to take a public vote on the issue and the public knows that. Just as excise taxes are hidden taxes because they are buried in the price of an item, indexing excise taxes is a hidden tax increase because lawmakers do not have to vote for the tax to take effect.

- Indexing the federal cigarette excise tax to inflation will not deter those who want to use the tax system to accomplish social policy from continuing to offer other proposals for additional cigarette excise taxes, including proposals to earmark the revenues to spending on "good" programs.

- The concept of indexing is fundamentally flawed. A rise in the overall cost of living does not automatically give the government license to increase the cost of all goods and services -- and the revenues to fund those services -- by a like amount. As corporate America tightens its belt, Americans have every right to expect the federal government, too, to increase efficiency and improve productivity, and deliver the same goods and services for fewer tax dollars.

Earmarking Consumer Excise Taxes
Unsound, Unwise and Unfair Tax Policy

Americans accept that as wage-earners, property owners or consumers, a portion of what we earn, own or buy will go into the government's till. In light of the current fiscal climate, individuals seem eager to pay their fair share for the sake of future generations. We expect these taxes to be fair -- and not single out certain Americans to contribute more than their portion. We also expect them to be put the best possible use.

In some cases, government targets specific products, and the people who buy them, for taxation and "earmark" the revenues to pay for programs and services that benefit the general public. Although various types of taxes have been earmarked for public projects, tobacco products continue to be frequent targets. Advocates of such taxes want to make smokers society's debt-payer, continually paying the bill for programs and services that benefit smokers and nonsmokers alike. Earmarking consumer excise taxes is unsound, unwise and unfair tax policy for several reasons.

- **Earmarking means a less competitive and more inflexible budgeting procedure.** Under general funding, most interest groups have to compete against each other for a piece of the budget "pie." Earmarking, by contrast, shields favored, special interests from competition from groups who must vie for general fund revenues. It also ties lawmakers' hands by removing a source of revenue that could potentially be used for general funding purposes, rendering the revenue base inflexible.

- **Earmarking often violates accepted principles of taxation.** Two widely accepted principles of taxation are the ability to pay and benefit principles of taxation. Increasing the federal tobacco excise tax to pay for the national debt or to finance health care reform fails both tests. The cigarette excise tax is extremely regressive, taking a much higher percentage of income from low- and middle-income families than from the wealthy.

- **Consumer excise taxes are an unreliable source of earmarked funds.** Hitching a federal cigarette excise tax increase to health care reform is like funding a program with a voracious appetite with a sinking revenue base. If cigarette sales continue to slip with the passage of time, financing the ever expanding heath care system would confront serious funding problems. Logic and fiscal prudence would dictate that funding come from a more reliable tax base.

- **It is unfair to ask one group of taxpayers -- smokers -- shoulder the burden of deficit reduction or health care reform.** In a progressive system, the tax burden should be borne by all, not just one group of taxpayers.

Consumer Excise Taxes and Diminishing Returns

Over the last ten years, state and local governments have increased consumer excise taxes hundreds of times. Lawmakers are now finding that a tax revenue source which provided stop-gap relief for states grappling with budget deficits is not a panacea for their fiscal woes. In fact, they are learning the reality of falling revenues from this "popular," punitive tax.

Economists agree that the well is going dry. Through the 1980s, the percentage of revenues generated by consumer excise taxes dropped steadily. A study by the Council of State Governments (CSG) confirms this point. The CSG calls excise taxes on tobacco and alcohol a "worn-out tax source," and urges policymakers to look elsewhere for revenues to fund a range of programs and services. (Source: Council of State Governments report, March 1993.)

While it may be politically easy for some federal lawmakers to suggest increasing consumer excise taxes on products like cigarettes, states and localities are learning the painful realities of a relying on a shrinking revenue source. They have reached the point of diminishing returns of this source that is, over time, unstable at best.

Taxes to grow with

The fiscal rewards of sin taxes are fleeting. States looking for growth are turning elsewhere.

by Doug Olberding

States looking for cash may be fooling themselves by turning to tried and true taxes, a new study by The Council of State Governments reveals.

Old standbys like the cigarette, motor fuels and traditional sales tax are likely to leave states spinning their wheels when it comes to generating future revenue growth, the study of state tax revenues from 1977 to 1990 shows.

"Overreliance on worn-out tax sources are a losing proposition for states that must pay for rising health care, prison and other costs," said Merl Hackbart, senior fellow at the Council. Driven by federal mandates and medical inflation, state Medicaid costs are outpacing state revenue growth, Hackbart said. "Revenues must at least keep pace with personal income growth if states hope to keep this under control."

One tax that can keep pace is largely going untapped. Until recently many states have exempted such areas as advertising, janitorial, secretarial and legal services from the general sales tax. The Council's study supports arguments for broadening the sales tax base to services such as these.

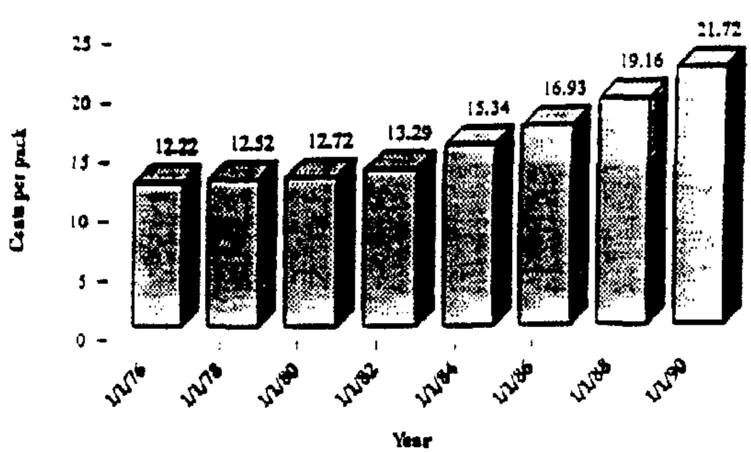
The Council analyzed state revenue data from the U.S. Census Bureau to find which tax sources best kept pace with personal income growth. The study measured each tax source's elasticity — its responsiveness to changes in personal income. This gives a measure of the fiscal health of a state by comparing state revenue growth to the growing wealth of the state's population.

The Council calculated the average elasticity for each state and then adjusted the result to control for one-time hikes in revenues when the rate first changed.

According to the study, states that increased taxes on cigarettes and other tobacco products saw no corresponding increase in revenue as personal income rose. Instead, in 20 states revenue from the tobacco excise tax actually decreased as personal income increased.

This can be explained, in part, by the decreasing demand for tobacco products. Since the surgeon general's 1964 report citing the health problems caused by cigarette smoking, the percentage of smokers in the United States has declined from 41 percent to about 25 percent today, said Carey O'Connor of the National Coalition on Smoking or Health.

Table 1: Average cigarette tax rate for all states — 1976 to 1990*



*Does not include Hawaii, which taxes cigarettes as a percent of wholesale price.

Source: The Book of the States, vols. 1976-77 to 1990-91

Doug Olberding is a research associate for The State Policy and Innovations group at The Council of State Governments.

Table 1 shows the average state tax rate increased from 13 cents per pack in 1976 to 23 cents per pack in 1990 with most of the increase occurring since 1984.

States that raise cigarette taxes may see a one-time revenue spurt, but in the long run cigarette tax revenues will fail to keep pace with increases in personal income as rates rise and demand falls. For example, when Canada raised its national and provincial excise rates to as high as $5 a pack, smoking rates plummeted to below 15 percent, said O'Connor.

Another poor prospect for long-term revenue growth is the motor fuels tax. Revenue from motor fuels taxes increased at a much slower rate than personal income from 1977

As Table 2 illustrates, states nearly doubled the cents-per-gallon tax from 1976 to 1990 to raise more revenue for highway construction and maintenance.

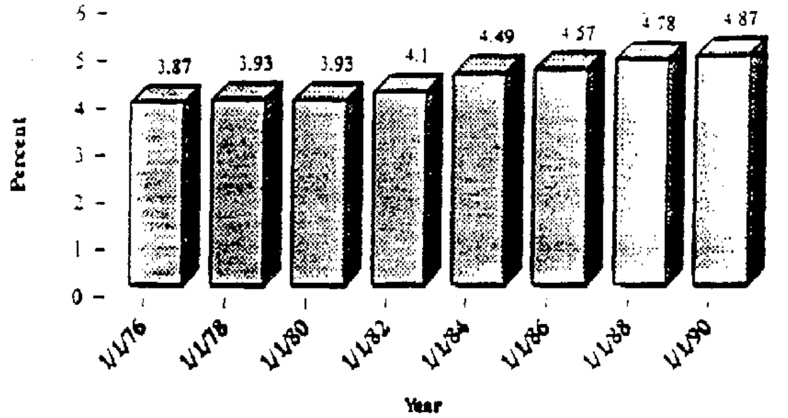
All states except New York and Alaska have raised motor fuel excise rates since 1976 for an average rate increase of 7.74 cents per gallon. Higher gas taxes combined with less gas usage by more fuel-efficient cars may have hurt gas tax revenue growth.

But the biggest threat to states that hope to raise revenue by increasing their gasoline tax rates is a proposal to increase the federal gasoline tax as much as 50 cents a gallon over the next few years. If this occurs, states may have to look for other ways to pay for highway construction and maintenance.

Of the three revenue sources in this study, general sales tax is clearly the most responsive to changes in personal income.

A total of 22 states have an average adjusted elasticity equal to or greater than one, indicating revenue from sales tax grows steadily with taxpayers income. The average rate for states with a general sales tax increased only 1 percent from 1976 to 1990 as indicated in Table 3.

Table 3: Average sales tax rate for states with general sales tax — 1976 to 1990*



*Alaska, Delaware, Montana, New Hampshire and Oregon do not have a general sales tax.

Source: The Book of the States, vols. 1976-77 to 1990-91

Most states still rely heavily on retail sales taxes on tangible goods for a large portion of their revenue. From 1977 to 1990, states received about one-fifth of their general fund revenue from the general sales tax.

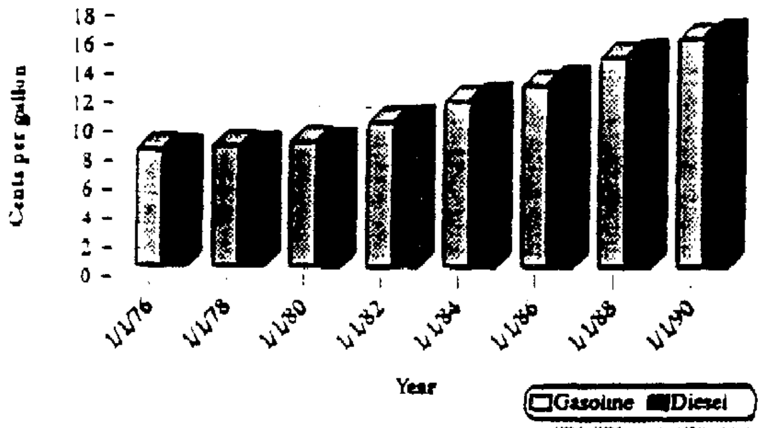
However, as Table 5 shows, the average elasticity of general sales taxes in all states has been declining steadily since about 1984. Many economists argue that this problem could be fixed if states would broaden their sales tax base by including services.

"Much of the activity of the early 1980s focused on raising rates," said William Duncombe of the Metropolitan Studies Program at Syracuse University. "But since 1987 there has been a concerted effort to expand service taxation."

For most states, services remain an untapped source with more revenue potential than increasing tax rates on less responsive sources.

Debate over taxing services has heated up as the U.S. economy has become more service-oriented. Spending on services has increased steadily since the 1960s while spending on tangible goods has declined, according to the U.S. Commerce Department. In the third quarter of 1992, personal consumption expenditures for tangible goods were at 46

Table 2: Average motor fuels tax rate for all states — gasoline and diesel, 1976 to 1990*



*Some states tax gasohol and liquified petroleum at separate rates.

Source: The Book of the States, vols. 1976-77 to 1990-91

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Table 4: Rank order of adjusted elasticity for selected state revenue sources — 1977 to 1990

Rank	State	General sales tax adjusted elasticity	State	Tobacco products tax adjusted elasticity	State	Motor fuels tax adjusted elasticity
1	Iowa	2.29	Idaho	1.43	Louisiana	3.28
2	Louisiana	2.07	Wyoming	0.89	Nevada	1.69
3	Wyoming	1.72	South Dakota	0.81	Delaware	1.52
4	South Dakota	1.39	Hawaii	0.74	Tennessee	1.21
5	Ohio	1.26	Illinois	0.58	Iowa	1.10
6	Massachusetts	1.20	Utah	0.56	West Virginia	0.97
7	Florida	1.19	Rhode Island	0.52	Oregon	0.88
8	Tennessee	1.18	California	0.48	Virginia	0.85
9	Pennsylvania	1.17	Washington	0.46	Missouri	0.84
10	Washington	1.17	Kansas	0.46	Utah	0.82
11	Connecticut	1.16	Nebraska	0.26	Ohio	0.79
12	Texas	1.15	Wisconsin	0.21	Vermont	0.76
13	Arkansas	1.14	Maine	0.19	Oklahoma	0.75
14	North Carolina	1.09	Arkansas	0.17	Wisconsin	0.71
15	Hawaii	1.09	Nevada	0.16	Florida	0.64
16	Kentucky	1.01	Texas	0.14	New Mexico	0.64
17	Rhode Island	1.01	Florida	0.14	South Dakota	0.63
18	New York	1.01	Mississippi	0.14	Connecticut	0.61
19	Michigan	1.01	Iowa	0.11	Washington	0.61
20	Wisconsin	1.00	Tennessee	0.10	South Carolina	0.60
21	Minnesota	1.00	Georgia	0.10	Arizona	0.60
22	Idaho	0.98	Connecticut	0.09	Minnesota	0.59
23	Virginia	0.96	Alabama	0.07	Kansas	0.56
24	North Dakota	0.96	Montana	0.06	Maine	0.56
25	New Jersey	0.94	Arizona	0.03	Mississippi	0.53
26	Nevada	0.94	Oregon	0.02	Alabama	0.51
27	South Carolina	0.94	New Mexico	0.01	Texas	0.48
28	Maine	0.94	Colorado	0.01	Nebraska	0.47
29	Vermont	0.93	South Carolina	0.01	Montana	0.46
30	Georgia	0.92	Missouri	0.00	Georgia	0.45
31	California	0.91	Vermont	-0.06	Indiana	0.41
32	Missouri	0.90	Delaware	-0.06	Arkansas	0.39
33	Maryland	0.89	Virginia	-0.09	Wyoming	0.36
34	Nebraska	0.88	New Hampshire	-0.09	Idaho	0.34
35	Alabama	0.83	New Jersey	-0.11	New Jersey	0.33
36	Arizona	0.83	Ohio	-0.13	Colorado	0.33
37	Indiana	0.83	Indiana	-0.15	Rhode Island	0.33
38	New Mexico	0.82	North Dakota	-0.16	California	0.26
39	Mississippi	0.81	Pennsylvania	-0.18	Hawaii	0.25
40	Kansas	0.81	New York	-0.19	North Carolina	0.23
41	Illinois	0.70	Massachusetts	-0.21	North Dakota	0.23
42	Utah	0.68	North Carolina	-0.22	Maryland	0.21
43	Colorado	0.47	Maryland	-0.25	Pennsylvania	0.18
44	West Virginia	-0.35	Minnesota	-0.36	New Hampshire	0.16
45	Oklahoma	-2.05	Kentucky	-0.38	Massachusetts	0.16
46	Alaska		West Virginia	-0.42	Illinois	0.11
47	Delaware	*No*	Michigan	-0.64	Michigan	0.10
48	Montana	*sales*	Oklahoma	-0.85	Kentucky	0.09
49	New Hampshire	*tax*	Alaska	-1.28	New York	-0.17
50	Oregon		Louisiana	-1.39	Alaska	-15.70
Average		**0.95**		**0.03**		**0.27**

Table 4 summarizes the results for general sales tax, tobacco products tax and motor fuels tax. An elasticity coefficient of 1.0 means revenue from the tax increased at the same rate as personal income from 1977 to 1990. A coefficient greater than 1.0 means tax revenue increased more than personal income, indicating an elastic revenue source. And a coefficient less than 1.0 indicates revenue rose less than the increase in personal income.

Taxes to grow with

from page 12

percent while expenditures for services reached 54 percent.

But taxing services can be difficult politically and practically. In Massachusetts and Florida, newly enacted service tax packages were repealed in waves of anti-tax sentiment.

Massachusetts in 1990 passed broad-based service tax legislation aimed at utilities, professional, personal and business services, expanding the sales tax to 59 new services. However, the reform was short-lived, as Gov. William Weld pushed a repeal through the Legislature in March 1991. Only the utility taxes and a few select business service taxes were spared.

State tax systems have lagged behind the structural changes in the economy. Only recently have states initiated changes in their tax structure to reflect the service-oriented economy.

Table 5: General Sales Tax

Year	*Average Elasticity*
1984	1.57
1985	1.59
1986	1.03
1987	0.96
1988	0.73
1989	0.80
1990	0.69

According to Ron Alt of the Federation of Tax Administrators, Pennsylvania, Massachusetts and New York have enacted the newest service taxes in the last two years. "Even though Pennsylvania extended the sales tax to cover 24 new services they're really just playing catch-up with the rest of the country."

Of the 160 services tracked by the FTA, the average state taxes 53. Pennsylvania now taxes 61 services. Massachusetts added 18 new services to its general sales tax even after the repeal but still ranks among the lowest in the nation with only 20. The leaders are New Mexico and Hawaii, which tax 155, followed by Delaware at 141 and South Dakota at 130.

It is likely more states will add services to their sales tax base. The FTA expects more states to impose taxes on business services such as advertising, employment agency, security, janitorial and secretarial services. The most widely taxed business services are printing and photo finishing, taxed by 44 states.

Duncombe said states will move incrementally towards applying the sales tax to services rather than trying for wholesale tax reforms or massive changes like those attempted unsuccessfully in Florida and Massachusetts.

And as the Council study shows, states that expand their sales tax to services are positioning themselves to keep pace with growth in personal income and demand for government services. ▬

Power to the powerless

from page 11

The Louisiana House is already leaning to the right, said Rep. Melvin "Kip" Holden, a member of the black caucus. "When they make black districts, it leaves whites with little or no black representation."

As a result, Holden said, some white legislators are more cautious about voting with the black caucus, because they don't want to offend white voters. "I can see the negative impact of having more black legislators vs. less black people in a district," Holden said.

In 1992, blacks increased their numbers in the Louisiana House from 14 to 24 of 105 members and in the 39-member Senate from five to eight. That gives the black caucus more power, but there's disagreement on how much more. Even though the 24 members of the black caucus are a sizable voting block, their numbers are greater than their influence, said Bruneau.

The black caucus didn't wield as much influence as it might have in 1992's session because so many members were new, said Holden. "We were still feeling out where we stood on issues," he said. Most members of the caucus, he said, favor the interests of minorities, women, low- and middle-class people and labor.

In special court-ordered November elections, the number of black legislators in the 122-member Mississippi House increased from 21 to 32. That's a significant increase, but not as radical as it appears because black legislators have been steadily increasing over the last decade, said House Speaker Tim Ford.

The turning point came in 1984 when a coalition of black and white legislators revolted against the then-speaker. The coalition failed, but came back to oust the speaker in 1987. Since then, black legislators have been named to powerful committees like ways and means, said Rep. Barney Schoby.

Ford, a white who was elected speaker in 1992 with black support, believes that increased black involvement has been good for the House. "It's beneficial in the fact that minority voices are regularly represented on factors before the Legislature," Ford said.

There's little racial polarization on legislative issues, said Ford. "We're divided more by urban and rural and liberal and conservative."

Just as Latino legislators feel the responsibility of representing their ethnic group, blacks feel they can more fairly represent the black population, said Rep. Charles Young, a leader in the black caucus. He expects the Mississippi black caucus to have greater influence on the budget process and bring more equity to division of tax revenues.

Black members want more attention to education and job development to help those in poverty. "Until we move the bottom of the state, we haven't moved the state," Young said. ▬

Tobacco "User Fees": A Duck In Fiscal Feathers

The anti-smoking lobby and some lawmakers have urged levying excise tax hikes on consumers who purchase cigarettes and earmarking the resulting revenue to help defray the nation's deficit or to finance health care reform. Many call these taxes "user fees" to minimize voter opposition.

But a tax on consumers who purchase tobacco products is just that: a tax.

A user fee is a charge imposed exclusively on those who benefit from a particular program, usually a government service. For example, the entry fee for a national park is considered a user fee because it is levied only on those who wish to use amenities offered by the park.

The notion of consumer excise taxes as "user fees" has been raised during previous Administrations. As former OMB Director Richard Darman stated at Senate Finance Committee hearings February 12, 1990, "If the cigarette excise tax were to be justified as a "user fee," you would have to dedicate the revenue to ... something that was going to actually benefit the cigarette smokers. That's pretty unlikely."

To impose a "user fee" or excise tax on tobacco and reserve the revenues to pay a debt that was incurred by the nation as a whole -- or to pay for health care services and programs from which all citizens will derive benefit -- is an unfair and discriminatory tax policy.

Debunking the "Social Costs" of Smoking

Some people claim that smoking is not strictly a personal choice, but imposes external "social costs" on our nation, and that smokers should compensate by paying higher taxes.

- In economics, "social costs" are activities of one group of individuals that impose significant costs on another group. Environmental pollution, for example, in which a company discharges waste products into a community water supply, constitutes a "social cost."

  Private costs, in contrast, are activities on the part of one individual that do not, generally, impose costs on others. In these cases, the costs are borne by the individuals who undertake the activity directly. Smoking falls into this category.

- 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. Health insurers who have established different premium rates for smokers and nonsmokers have done so without benefit of actuarial studies to support these rate differentials. The 1989 Surgeon General's Report acknowledged that "there is little supportive actuarial evidence that nonsmokers incur fewer claims."

- Funding for government programs such as Medicaid and Medicare comes from all taxpayers, smokers and nonsmokers alike. Contributing to such programs is considered beneficial for all participants and, like any social insurance program, the benefit to some taxpayers will be greater in value than their actual contribution.

  It is difficult to determine who gains and who loses under such a system -- so difficult, in fact, that even a staff report from the Office of Technology Assessment on the claimed "costs" of smoking declined to address this issue, calling it too "complex."

- However, if these government programs were being overused by smokers, as the American Medical Association has recently claimed, one could argue that smokers were creating additional costs for others. To the contrary, however, smokers as a group are very much <u>underrepresented</u> in the population groups served by these programs.

  Forty-five percent of those served by Medicaid, for example, are children; 15 percent of Medicaid beneficiaries and more than 90 percent of Medicare beneficiaries are over age 65 -- an age group in which only 16 percent are smokers.

- Nevertheless, an American Medical Association report released on February 23 claimed that smokers "cost" the health care system $22 billion annually. Of that

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total, the AMA claims that the government spent $4.2 billion in the Medicaid and Medicare programs on tobacco-related illnesses.

- Smokers already pay $11.3 billion in federal, state and local cigarette excise taxes and another $2 billion in additional sales taxes, for a total of $13.3 billion.

  However, given the enormous contribution that smokers already make to government health care financing -- in excise and sales taxes, personal income and Social Security taxes and other fees, there is ample reason to suggest that smokers are subsidizing nonsmokers in these programs -- not the other way around.

- According to Uwe Reinhart, a prominent Princeton health economist, "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 says that total lifetime health costs are actually lower for many smokers.

New OTA Report Suggests
That Smokers Already Are Paying Their Own Way -- And Then Some

The Congressional Office of Technology Assessment (OTA) recently claimed that smokers "cost" federal, state and local governments $8.9 billion in health care expenditures attributable to smoking-related illnesses.

But smokers 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 contribute substantially more than OTA claims smokers "cost" the government in health care expenditures.

Of the $8.9 billion total, OTA estimates the federal government's share at $6.3 billion -- 24 cents per pack of cigarettes sold.

The federal excise tax on cigarettes currently stands at 24 cents per pack.

OTA divides the federal government's $6.3 billion in costs between Medicare ($3.5 billion) and Medicaid ($2.7 billion).

But total estimated payments by smokers into these two programs in 1990 totaled nearly $21 billion -- more than three times the amount OTA says smokers "cost" these federal programs.

Smokers as a group are in fact underrepresented in the populations served by these programs. Forty-five percent of those being served by Medicaid, for example, are children. And more than 90 percent of those served by Medicare are over 65 -- an age group in which only 16 percent are smokers.

Despite these facts, President Clinton has suggested that a cigarette excise tax increase is "one option that is up there high" because "taxpayers spend an enormous amount of money every year through Medicare and Medicaid directly related to costs that are tied to smoking." Washington Post, May 14, 1993.

Even if these programs were properly viewed as "pay-as-you-go" programs -- which they are not -- the fact is that smokers already are paying more than their fair share.

Between sales and excise taxes ($13.3 billion) and payments to Medicare and Medicaid ($21 billion), smokers are paying $34 billion to federal, state and local governments -- nearly four times the amount OTA claims that smoking costs government at all levels in health care expenditures.

Given the enormous contribution that smokers already are making to government health care financing, there is ample reason to conclude that smokers are "subsidizing" everyone else -- not the other way around.

"STOP TRYING TO LEGISLATE MORALS AND BEGIN TEACHING OUR YOUNG PEOPLE RESPONSIBILITY."

U.S. Surgeon General Joycelyn Elders, interview on "Both Sides with Jesse Jackson," CNN (Oct. 2, 1993).

Anti-smokers advocate increasing tobacco excise taxes to fund reform of the U.S. health care system. They claim that a substantial increase in the federal excise tax is an effective way to raise needed revenue while discouraging young people from smoking. Research, however, has found that the most effective way to reduce youth smoking is not by altering the tax code, but by addressing peer pressure and the influence of family -- the main reasons young people smoke. An examination of the information concerning young people and smoking is revealing.

- **Youth smoking is not on the rise.** Smoking rates among young people continue to decline. For the period 1976-87, the prevalence of smoking among high school seniors fell from 29 to 19 percent -- a 33 percent decline. In October 1991 -- the latest year for which figures are available -- the Centers for Disease Control and Prevention published figures reporting teen smoking rates (one or more days during the week before the survey) among 12 to 18 year olds at 11.5 percent.

- **Underage people who smoke represent approximately three percent of all smokers.** While we all agree that the one young person who smokes is too many, there are ways to curb underage tobacco use *without punishing* -- through unfair and regressive taxation -- the overwhelming majority of the smoking population who are adults and who are using the product legally.

- **Experts cite peer pressure and parental influence as the main reasons some young people smoke.** Many successful, effective life-skills programs include decision-making and refusal training to help young people deal with peer pressure. In fact, U.S. Surgeon General Joycelyn Elders advocates such programs and underscores the role parents can and should play in raising young people.

  "I advocate educating our parents so that all will know how to instill in their children the courage, strength and perseverance to meet the challenge of growing up. We do not teach parents how to be good parents. Because they do not want to do anything wrong, sometimes parents simply do nothing when it comes to providing sound, solid direction and guidance for their children." [Statement before the U.S. Senate Labor and Human Resources Committee, July 23, 1993.]

- **Countering peer pressure and the influences of family is the thrust of the tobacco industry's ongoing initiatives to reduce youth smoking.** The tobacco industry continues to support nationwide programs to provide parents and other adults with the tools they need to help their children learn how to deal with peer pressure -- and to help them decide not to smoke.

Lessons from Canada's Decision to Lower Cigarette Taxes

The Canadian government has reduced cigarette taxes. Prime Minister Jean Chretien announced plans to roll-back federal cigarette taxes by at least $5 per carton. Provinces are encouraged to follow suit. In Quebec, the tax will drop $21 per carton.

This decision flies in the face of the anti-smoking lobby. For years they have held up Canada as a model. They contend that Canada's experiment with high cigarette taxes has led to lower cigarette consumption, higher tax revenues and has acted as deterrent to youths.

The Canadian "model," however, has broken down. Other lessons were learned. Cigarette consumption has not fallen appreciably compared to the United States. There has been an enormous increase in smuggling and theft. It has become more difficult to deter youths from smoking. And, Canadian smokers have become openly resentful of their government.

Anti-smokers allege that Canadian cigarette consumption has fallen in tandem with giant cigarette tax hikes. This would be the case if one measured consumption by domestic sales, which have nose-dived. However, many Canadian smokers have avoided the taxes by purchasing Canadian cigarettes in the United States. These shipments are called "export-duty free" and they can be tracked quite easily.

When total Canadian cigarette production is measured, including export duty-free, Canadian cigarette production decreased by 27 percent from 1982 to 1993. In the United States, the drop was about 22 percent for the same period. From 1988 to 1993, total Canadian production fell by about 14 percent compared to a 13.7 percent drop in the United States. This demonstrates that high taxes have not reduced Canadian consumption more than other nations -- it has just led to more consumption of smuggled products.

Smuggling has become big business. In a December 1993 Wall Street Journal report, the Quebec government estimated that 50 percent of the cigarettes consumed were smuggled into the province. More recent estimates pegged the share at 75 percent. According to the National Association of Convenience Stores, "the underground or bootleg market for cigarettes in Canada had grown so large that it now outpaces, in terms of volume, the entire Canadian convenience store industry's sale of cigarettes."

With high taxes has come a crime wave. Examples of organized crime and theft abound with record levels of robberies at stores that sell cigarettes. The Mayor of Cornwall, Ontario, was under police protection after a series of death threats were attributed to his vocal opposition to smuggling. A group of 75 store owners openly defied Canadian law by selling cigarettes at cut-rate prices to hordes of delighted customers. This action was in protest of the lost sales and lost jobs absorbed by these legitimate retailers.

Given the emergence of an underground market, high taxes have also made it more difficult to deter youths from smoking. The anti-smoking lobby argues that high taxes will keep cigarettes out of the hands of young people. When taxes are raised, however, smuggling and theft make cigarettes even more accessible to kids. For example, in Canada about 33 percent of all cigarettes are purchased illegally. The last thing a smuggler is concerned about is checking one's I.D. The surest way to control youth sales is by working with legitimate retailers, not smugglers.

High tobacco taxes appear to have failed to lower consumption and deter youths from smoking. Why does the anti-smoking lobby insist on keeping taxes high even though it has spawned a crime wave? One answer is tax revenues. Cigarette tax revenues have risen, not near as much as expected, but they have increased. Are civic-minded health professionals more concerned about losing their share of tobacco revenues earmarked to public grants from which they directly benefit?

The U.S. Experience

Could we expect similar problems in the United States? Many Americans are not fond of big government. In response to confiscatory taxation, Yankee ingenuity is likely to develop its share of loopholes. To begin, truck high-jackings and theft are likely to rise. In November 1993, the National Association of Convenience Stores testified before the House Ways and Means Committee about concerns of significant amounts of store theft in response to the Clinton administration's 75c per pack cigarette tax hike proposal.

Another source of tax evasion is cross-border sales involving low-tax states, Indian reservations and military bases. State cigarette and sales taxes do not generally apply to such sales on military bases or Indian reservations. Consumers in states with high cigarette and sales taxes can make savings large enough to deflect a $7.50 per carton federal excise tax hike. For example, a New York resident can now save over $7.00 per carton on an Indian reservation. According to New York Tax Commissioner James Wexler, such sales already take up 7 percent of the New York market and are rising.

However, the real fire could exist on the United State's 2,000-mile border with Mexico. Maneuvers similar to the Canadian episode could take place. Export duty free U.S. cigarettes could easily find their way to Mexico without the Clinton tax and come back across the border as smuggled smokes.

Mexican premium category cigarettes, which include most of the top U.S. brand names, now sell for about $1.35 per pack with Mexican taxes included. After the Clinton tax, smugglers could save about $9 per carton for such brands in Mexico. On other brands, the savings could be as much as $19 per carton. At $10 per carton, a truck-full of cigarettes from Mexico would have a gross profit potential of about $600,000 in the United States.

With incentives such as these, the United States may be on the verge of a new smuggler revolution. Americans and Mexicans may be engaged in a new form of trade not quite envisioned by our pro-NAFTA leaders.

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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 ALABAMA
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 Alabama economy. Cigarette sales in Alabama could fall by approximately 12%. Price Waterhouse estimates that 7,006 Alabama residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 841 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 Alabama tobacco sector is re-spent in the Alabama economy which stimulates other sectors. Price Waterhouse estimates that 25,466 Alabama 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 3,056 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 3,897 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Alabama cigarette excise tax revenues will drop by $8,777,880.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	$1,095,264	59
Tobacco Wholesale Trade	$2,816,280	97
Tobacco Retail Trade	$4,690,428	340
Tobacco Sector Suppliers	$8,564,580	345
TOTAL TOBACCO SECTOR	$17,166,552	841
EXPENDITURE INDUCED SECTORS	$83,743,572	3,056
TOTAL LOSSES	$100,910,124	3,897

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 ALASKA 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 Alaska economy. Cigarette sales in Alaska could fall by approximately 12%. Price Waterhouse estimates that 805 Alaska residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 97 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 Alaska tobacco sector is re-spent in the Alaska economy which stimulates other sectors. Price Waterhouse estimates that 1,929 Alaska 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 231 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 328 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Alaska cigarette excise tax revenues will drop by $1,908,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$183,372	5
Tobacco Retail Trade	$929,880	46
Tobacco Sector Suppliers	$1,774,860	46
TOTAL TOBACCO SECTOR	$2,888,112	97
EXPENDITURE INDUCED SECTORS	$9,107,688	231
TOTAL LOSSES	$11,995,800	328

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 ARIZONA
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 Arizona economy. Cigarette sales in Arizona could fall by approximately 12%. Price Waterhouse estimates that 4,859 Arizona residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 584 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 Arizona tobacco sector is re-spent in the Arizona economy which stimulates other sectors. Price Waterhouse estimates that 12,903 Arizona 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 1,548 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 2,132 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Arizona cigarette excise tax revenues will drop by $6,375,840.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$949,956	30
Tobacco Retail Trade	$4,466,616	294
Tobacco Sector Suppliers	$5,881,872	260
TOTAL TOBACCO SECTOR	$11,298,444	584
EXPENDITURE INDUCED SECTORS	$47,437,404	1,548
TOTAL LOSSES	$58,735,848	2,132

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.

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ECONOMIC LOSSES TO ARKANSAS 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 Arkansas economy. Cigarette sales in Arkansas could fall by approximately 12%. Price Waterhouse estimates that 3,790 Arkansas residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 454 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 Arkansas tobacco sector is re-spent in the Arkansas economy which stimulates other sectors. Price Waterhouse estimates that 11,453 Arkansas 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 1,374 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 1,828 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Arkansas cigarette excise tax revenues will drop by $10,380,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$2,178,648	85
Tobacco Retail Trade	$2,617,776	193
Tobacco Sector Suppliers	$3,756,972	176
TOTAL TOBACCO SECTOR	$8,553,396	454
EXPENDITURE INDUCED SECTORS	$34,017,000	1,374
TOTAL LOSSES	$42,570,396	1,828

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.

2077420580

ECONOMIC LOSSES TO CALIFORNIA
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 California economy. Cigarette sales in California could fall by approximately 12%. Price Waterhouse estimates that 42,026 California residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 5,044 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 California tobacco sector is re-spent in the California economy which stimulates other sectors. Price Waterhouse estimates that 82,997 California 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 9,960 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 15,004 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. California cigarette excise tax revenues will drop by $84,600,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	$210,300	5
Tobacco Wholesale Trade	$16,370,604	461
Tobacco Retail Trade	$34,144,992	1,873
Tobacco Sector Suppliers	$76,151,604	2,705
TOTAL TOBACCO SECTOR	$126,877,500	5,044
EXPENDITURE INDUCED SECTORS	$371,578,380	9,960
TOTAL LOSSES	$498,455,880	15,004

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.

2077420581

ECONOMIC LOSSES TO COLORADO 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 Colorado economy. Cigarette sales in Colorado could fall by approximately 12%. Price Waterhouse estimates that 5,585 Colorado residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 670 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 Colorado tobacco sector is re-spent in the Colorado economy which stimulates other sectors. Price Waterhouse estimates that 14,603 Colorado 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 1,752 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 2,422 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Colorado cigarette excise tax revenues will drop by $7,038,480.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$1,978,968	58
Tobacco Retail Trade	$3,706,224	247
Tobacco Sector Suppliers	$9,740,280	365
TOTAL TOBACCO SECTOR	$15,425,472	670
EXPENDITURE INDUCED SECTORS	$59,721,804	1,752
TOTAL LOSSES	$75,147,276	2,422

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.

2077420582

ECONOMIC LOSSES TO CONNECTICUT
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 Connecticut economy. Cigarette sales in Connecticut could fall by approximately 12%. Price Waterhouse estimates that 11,659 Connecticut residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 1,399 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 Connecticut tobacco sector is re-spent in the Connecticut economy which stimulates other sectors. Price Waterhouse estimates that 17,671 Connecticut 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 2,121 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 3,520 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Connecticut cigarette excise tax revenues will drop by $14,414,520.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$286,824	48
Tobacco Manufacturing	$648,480	14
Tobacco Wholesale Trade	$4,209,132	90
Tobacco Retail Trade	$5,733,804	300
Tobacco Sector Suppliers	$34,196,520	947
TOTAL TOBACCO SECTOR	$45,074,760	1,399
EXPENDITURE INDUCED SECTORS	$92,066,244	2,121
TOTAL LOSSES	$137,141,004	3,520

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 DELAWARE 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 Delaware economy. Cigarette sales in Delaware could fall by approximately 12%. Price Waterhouse estimates that 1,120 Delaware residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 134 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 Delaware tobacco sector is re-spent in the Delaware economy which stimulates other sectors. Price Waterhouse estimates that 4,704 Delaware 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 564 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 698 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Delaware cigarette excise tax revenues will drop by $2,424,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$412,620	14
Tobacco Retail Trade	$912,216	60
Tobacco Sector Suppliers	$1,513,140	60
TOTAL TOBACCO SECTOR	$2,837,976	134
EXPENDITURE INDUCED SECTORS	$20,164,932	564
TOTAL LOSSES	$23,002,908	698

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 DISTRICT OF COLUMBIA 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 District of Columbia economy. Cigarette sales in District of Columbia could fall by approximately 12%. Price Waterhouse estimates that 1,565 District of Columbia residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 189 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 District of Columbia tobacco sector is re-spent in the District of Columbia economy which stimulates other sectors. Price Waterhouse estimates that 2,855 District of Columbia 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 343 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 532 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. District of Columbia cigarette excise tax revenues will drop by $2,808,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	$40,008	1
Tobacco Wholesale Trade	$1,040,484	36
Tobacco Retail Trade	$634,992	36
Tobacco Sector Suppliers	$3,871,836	116
TOTAL TOBACCO SECTOR	$5,587,320	189
EXPENDITURE INDUCED SECTORS	$13,085,724	343
TOTAL LOSSES	$18,673,044	532

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 FLORIDA
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 Florida economy. Cigarette sales in Florida could fall by approximately 12%. Price Waterhouse estimates that 23,860 Florida residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 2,863 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 Florida tobacco sector is re-spent in the Florida economy which stimulates other sectors. Price Waterhouse estimates that 68,120 Florida 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 8,174 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 11,037 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Florida cigarette excise tax revenues will drop by $51,208,920.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$1,177,836	190
Tobacco Manufacturing	$4,383,312	130
Tobacco Wholesale Trade	$10,057,668	263
Tobacco Retail Trade	$18,334,128	1,178
Tobacco Sector Suppliers	$26,400,084	1,102
TOTAL TOBACCO SECTOR	$60,353,028	2,863
EXPENDITURE INDUCED SECTORS	$224,085,456	8,174
TOTAL LOSSES	$284,438,484	11,037

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.

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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 HAWAII
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 Hawaii economy. Cigarette sales in Hawaii could fall by approximately 12%. Price Waterhouse estimates that 1,733 Hawaii residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 208 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 Hawaii tobacco sector is re-spent in the Hawaii economy which stimulates other sectors. Price Waterhouse estimates that 1,966 Hawaii 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 236 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 444 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Hawaii cigarette excise tax revenues will drop by $4,800,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$980,136	33
Tobacco Retail Trade	$1,327,956	76
Tobacco Sector Suppliers	$2,273,220	99
TOTAL TOBACCO SECTOR	$4,581,312	208
EXPENDITURE INDUCED SECTORS	$6,974,256	236
TOTAL LOSSES	$11,555,568	444

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 IDAHO 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 Idaho economy. Cigarette sales in Idaho could fall by approximately 12%. Price Waterhouse estimates that 1,565 Idaho residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 187 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 Idaho tobacco sector is re-spent in the Idaho economy which stimulates other sectors. Price Waterhouse estimates that 4,595 Idaho 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 551 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 738 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Idaho cigarette excise tax revenues will drop by $1,909,200.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$556,392	22
Tobacco Retail Trade	$1,077,528	78
Tobacco Sector Suppliers	$1,868,160	87
TOTAL TOBACCO SECTOR	$3,502,080	187
EXPENDITURE INDUCED SECTORS	$13,320,612	551
TOTAL LOSSES	$16,822,692	738

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.

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ECONOMIC LOSSES TO ILLINOIS
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 Illinois economy. Cigarette sales in Illinois could fall by approximately 12%. Price Waterhouse estimates that 25,768 Illinois residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 3,092 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 Illinois tobacco sector is re-spent in the Illinois economy which stimulates other sectors. Price Waterhouse estimates that 77,294 Illinois 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 9,275 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 12,367 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Illinois cigarette excise tax revenues will drop by $51,600,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	$3,167,052	43
Tobacco Wholesale Trade	$8,963,964	250
Tobacco Retail Trade	$13,674,312	862
Tobacco Sector Suppliers	$126,157,476	1,937
TOTAL TOBACCO SECTOR	$151,962,804	3,092
EXPENDITURE INDUCED SECTORS	$324,846,204	9,275
TOTAL LOSSES	$476,809,008	12,367

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 INDIANA 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 Indiana economy. Cigarette sales in Indiana could fall by approximately 12%. Price Waterhouse estimates that 10,769 Indiana residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 1,293 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 Indiana tobacco sector is re-spent in the Indiana economy which stimulates other sectors. Price Waterhouse estimates that 34,094 Indiana 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 4,091 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 5,384 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Indiana cigarette excise tax revenues will drop by $13,189,200.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$1,025,640	170
Tobacco Manufacturing	$393,204	9
Tobacco Wholesale Trade	$3,986,112	140
Tobacco Retail Trade	$6,579,588	496
Tobacco Sector Suppliers	$11,839,176	478
TOTAL TOBACCO SECTOR	$23,823,720	1,293
EXPENDITURE INDUCED SECTORS	$135,477,792	4,091
TOTAL LOSSES	$159,301,512	5,384

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.

2077420591

ECONOMIC LOSSES TO IOWA
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 Iowa economy. Cigarette sales in Iowa could fall by approximately 12%. Price Waterhouse estimates that 5,285 Iowa residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 634 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 Iowa tobacco sector is re-spent in the Iowa economy which stimulates other sectors. Price Waterhouse estimates that 16,034 Iowa 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 1,924 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 2,558 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Iowa cigarette excise tax revenues will drop by $11,101,680.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$2,698,104	86
Tobacco Retail Trade	$3,097,296	252
Tobacco Sector Suppliers	$6,896,712	296
TOTAL TOBACCO SECTOR	$12,692,112	634
EXPENDITURE INDUCED SECTORS	$49,323,012	1,924
TOTAL LOSSES	$62,015,124	2,558

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.

2077420592

ECONOMIC LOSSES TO KANSAS
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 Kansas economy. Cigarette sales in Kansas could fall by approximately 12%. Price Waterhouse estimates that 4,361 Kansas residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 524 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 Kansas tobacco sector is re-spent in the Kansas economy which stimulates other sectors. Price Waterhouse estimates that 14,545 Kansas 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 1,745 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 2,269 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Kansas cigarette excise tax revenues will drop by $6,468,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$1,594,788	60
Tobacco Retail Trade	$2,616,948	194
Tobacco Sector Suppliers	$6,976,260	270
TOTAL TOBACCO SECTOR	$11,187,996	524
EXPENDITURE INDUCED SECTORS	$49,921,380	1,745
TOTAL LOSSES	$61,109,376	2,269

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.

2077420593

ECONOMIC LOSSES TO LOUISIANA
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 Louisiana economy. Cigarette sales in Louisiana could fall by approximately 12%. Price Waterhouse estimates that 7,808 Louisiana residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 936 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 Louisiana tobacco sector is re-spent in the Louisiana economy which stimulates other sectors. Price Waterhouse estimates that 15,803 Louisiana 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 1,896 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 2,832 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Louisiana cigarette excise tax revenues will drop by $10,713,480.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	$16,416	NA
Tobacco Wholesale Trade	$3,973,488	144
Tobacco Retail Trade	$4,621,692	341
Tobacco Sector Suppliers	$11,533,308	451
TOTAL TOBACCO SECTOR	$20,144,904	936
EXPENDITURE INDUCED SECTORS	$56,880,624	1,896
TOTAL LOSSES	$77,025,528	2,832

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.

2077420594

**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 MAINE
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 Maine economy. Cigarette sales in Maine could fall by approximately 12%. Price Waterhouse estimates that 2,382 Maine residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 287 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 Maine tobacco sector is re-spent in the Maine economy which stimulates other sectors. Price Waterhouse estimates that 5,322 Maine 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 639 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 926 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Maine cigarette excise tax revenues will drop by $5,933,400.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$1,955,352	66
Tobacco Retail Trade	$1,836,732	128
Tobacco Sector Suppliers	$1,969,800	93
TOTAL TOBACCO SECTOR	$5,761,884	287
EXPENDITURE INDUCED SECTORS	$18,733,836	639
TOTAL LOSSES	$24,495,720	926

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.

2077420596

ECONOMIC LOSSES TO MARYLAND
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 Maryland economy. Cigarette sales in Maryland could fall by approximately 12%. Price Waterhouse estimates that 9,563 Maryland residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 1,147 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 Maryland tobacco sector is re-spent in the Maryland economy which stimulates other sectors. Price Waterhouse estimates that 17,984 Maryland 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 2,158 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 3,305 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Maryland cigarette excise tax revenues will drop by $17,288,640.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$1,095,564	185
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$3,469,188	116
Tobacco Retail Trade	$6,837,396	394
Tobacco Sector Suppliers	$12,051,720	452
TOTAL TOBACCO SECTOR	$23,453,868	1,147
EXPENDITURE INDUCED SECTORS	$69,756,168	2,158
TOTAL LOSSES	$93,210,036	3,305

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 MASSACHUSETTS
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 Massachusetts economy. Cigarette sales in Massachusetts could fall by approximately 12%. Price Waterhouse estimates that 12,623 Massachusetts residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 1,515 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 Massachusetts tobacco sector is re-spent in the Massachusetts economy which stimulates other sectors. Price Waterhouse estimates that 32,336 Massachusetts 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 3,880 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 5,395 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Massachusetts cigarette excise tax revenues will drop by $30,744,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$72,672	12
Tobacco Manufacturing	$62,544	1
Tobacco Wholesale Trade	$5,459,736	180
Tobacco Retail Trade	$10,046,736	582
Tobacco Sector Suppliers	$20,666,400	740
TOTAL TOBACCO SECTOR	$36,308,088	1,515
EXPENDITURE INDUCED SECTORS	$142,473,288	3,880
TOTAL LOSSES	$178,781,376	5,395

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 MICHIGAN
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 Michigan economy. Cigarette sales in Michigan could fall by approximately 12%. Price Waterhouse estimates that 13,935 Michigan residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 1,673 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 Michigan tobacco sector is re-spent in the Michigan economy which stimulates other sectors. Price Waterhouse estimates that 55,640 Michigan 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 6,677 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 8,350 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Michigan cigarette excise tax revenues will drop by $29,496,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	$36,696	1
Tobacco Wholesale Trade	$6,406,956	198
Tobacco Retail Trade	$10,567,188	729
Tobacco Sector Suppliers	$19,993,956	745
TOTAL TOBACCO SECTOR	$37,004,796	1,673
EXPENDITURE INDUCED SECTORS	$259,853,592	6,677
TOTAL LOSSES	$296,858,388	8,350

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 MINNESOTA
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 Minnesota economy. Cigarette sales in Minnesota could fall by approximately 12%. Price Waterhouse estimates that 8,020 Minnesota residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 962 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 Minnesota tobacco sector is re-spent in the Minnesota economy which stimulates other sectors. Price Waterhouse estimates that 23,514 Minnesota 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 2,822 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 3,784 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Minnesota cigarette excise tax revenues will drop by $20,820,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$3,389,208	99
Tobacco Retail Trade	$5,309,820	375
Tobacco Sector Suppliers	$14,226,444	488
TOTAL TOBACCO SECTOR	$22,925,472	962
EXPENDITURE INDUCED SECTORS	$88,588,500	2,822
TOTAL LOSSES	$111,513,972	3,784

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.

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ECONOMIC LOSSES TO MISSISSIPPI
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 Mississippi economy. Cigarette sales in Mississippi could fall by approximately 12%. Price Waterhouse estimates that 4,359 Mississippi residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 523 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 Mississippi tobacco sector is re-spent in the Mississippi economy which stimulates other sectors. Price Waterhouse estimates that 16,609 Mississippi 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 1,993 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 2,516 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Mississippi cigarette excise tax revenues will drop by $5,758,800.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$3,255,660	124
Tobacco Retail Trade	$2,796,600	218
Tobacco Sector Suppliers	$3,783,936	181
TOTAL TOBACCO SECTOR	$9,836,196	523
EXPENDITURE INDUCED SECTORS	$46,765,548	1,993
TOTAL LOSSES	$56,601,744	2,516

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 MISSOURI
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 Missouri economy. Cigarette sales in Missouri could fall by approximately 12%. Price Waterhouse estimates that 9,835 Missouri residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 1,180 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 Missouri tobacco sector is re-spent in the Missouri economy which stimulates other sectors. Price Waterhouse estimates that 24,984 Missouri 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 2,998 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 4,178 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Missouri cigarette excise tax revenues will drop by $12,780,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$403,224	67
Tobacco Manufacturing	$30,264	1
Tobacco Wholesale Trade	$3,542,076	114
Tobacco Retail Trade	$6,066,360	430
Tobacco Sector Suppliers	$15,402,456	568
TOTAL TOBACCO SECTOR	$25,444,380	1,180
EXPENDITURE INDUCED SECTORS	$96,607,668	2,998
TOTAL LOSSES	$122,052,048	4,178

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 MONTANA
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 Montana economy. Cigarette sales in Montana could fall by approximately 12%. Price Waterhouse estimates that 1,289 Montana residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 156 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 Montana tobacco sector is re-spent in the Montana economy which stimulates other sectors. Price Waterhouse estimates that 3,215 Montana 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 386 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 542 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Montana cigarette excise tax revenues will drop by $1,574,640.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$473,544	15
Tobacco Retail Trade	$812,004	63
Tobacco Sector Suppliers	$1,825,284	78
TOTAL TOBACCO SECTOR	$3,110,832	156
EXPENDITURE INDUCED SECTORS	$8,745,228	386
TOTAL LOSSES	$11,856,060	542

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.

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ECONOMIC LOSSES TO NEBRASKA 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 Nebraska economy. Cigarette sales in Nebraska could fall by approximately 12%. Price Waterhouse estimates that 3,023 Nebraska residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 363 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 Nebraska tobacco sector is re-spent in the Nebraska economy which stimulates other sectors. Price Waterhouse estimates that 5,306 Nebraska 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 637 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 1,000 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Nebraska cigarette excise tax revenues will drop by $5,480,400.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	$26,808	NA
Tobacco Wholesale Trade	$1,271,568	46
Tobacco Retail Trade	$1,581,816	129
Tobacco Sector Suppliers	$4,600,284	188
TOTAL TOBACCO SECTOR	$7,480,476	363
EXPENDITURE INDUCED SECTORS	$15,390,972	637
TOTAL LOSSES	$22,871,448	1,000

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 NEVADA 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 Nevada economy. Cigarette sales in Nevada could fall by approximately 12%. Price Waterhouse estimates that 2,051 Nevada residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 245 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 Nevada tobacco sector is re-spent in the Nevada economy which stimulates other sectors. Price Waterhouse estimates that 2,348 Nevada 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 282 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 527 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Nevada cigarette excise tax revenues will drop by $5,575,200.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	$15,732	NA
Tobacco Wholesale Trade	$928,188	34
Tobacco Retail Trade	$1,808,328	103
Tobacco Sector Suppliers	$1,841,052	108
TOTAL TOBACCO SECTOR	$4,593,300	245
EXPENDITURE INDUCED SECTORS	$8,757,072	282
TOTAL LOSSES	$13,350,372	527

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.

2077420605

ECONOMIC LOSSES TO NEW HAMPSHIRE 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 New Hampshire economy. Cigarette sales in New Hampshire could fall by approximately 12%. Price Waterhouse estimates that 1,686 New Hampshire residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 202 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 New Hampshire tobacco sector is re-spent in the New Hampshire economy which stimulates other sectors. Price Waterhouse estimates that 6,828 New Hampshire 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 819 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 1,021 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. New Hampshire cigarette excise tax revenues will drop by $5,472,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$828,708	26
Tobacco Retail Trade	$1,353,408	86
Tobacco Sector Suppliers	$2,269,308	90
TOTAL TOBACCO SECTOR	$4,451,424	202
EXPENDITURE INDUCED SECTORS	$27,799,656	819
TOTAL LOSSES	$32,251,080	1,021

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 NEW JERSEY 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 New Jersey economy. Cigarette sales in New Jersey could fall by approximately 12%. Price Waterhouse estimates that 16,234 New Jersey residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 1,949 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 New Jersey tobacco sector is re-spent in the New Jersey economy which stimulates other sectors. Price Waterhouse estimates that 62,970 New Jersey 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 7,556 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 9,505 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. New Jersey cigarette excise tax revenues will drop by $30,862,680.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	$585,816	24
Tobacco Wholesale Trade	$6,325,656	180
Tobacco Retail Trade	$12,543,240	659
Tobacco Sector Suppliers	$37,895,508	1,086
TOTAL TOBACCO SECTOR	$57,350,220	1,949
EXPENDITURE INDUCED SECTORS	$293,322,312	7,556
TOTAL LOSSES	$350,672,532	9,505

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 NEW MEXICO 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 New Mexico economy. Cigarette sales in New Mexico could fall by approximately 12%. Price Waterhouse estimates that 1,949 New Mexico residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 234 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 New Mexico tobacco sector is re-spent in the New Mexico economy which stimulates other sectors. Price Waterhouse estimates that 3,351 New Mexico 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 402 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 636 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. New Mexico cigarette excise tax revenues will drop by $2,712,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$448,440	17
Tobacco Retail Trade	$1,363,524	101
Tobacco Sector Suppliers	$2,507,700	116
TOTAL TOBACCO SECTOR	$4,319,664	234
EXPENDITURE INDUCED SECTORS	$9,581,196	402
TOTAL LOSSES	$13,900,860	636

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.

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ECONOMIC LOSSES TO NEW YORK
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 New York economy. Cigarette sales in New York could fall by approximately 12%. Price Waterhouse estimates that 40,580 New York residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 4,870 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 New York tobacco sector is re-spent in the New York economy which stimulates other sectors. Price Waterhouse estimates that 195,035 New York 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 23,404 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 28,274 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. New York cigarette excise tax revenues will drop by $88,812,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	$14,022,372	152
Tobacco Wholesale Trade	$13,591,524	382
Tobacco Retail Trade	$23,397,780	1,326
Tobacco Sector Suppliers	$149,369,460	3,010
TOTAL TOBACCO SECTOR	$200,381,136	4,870
EXPENDITURE INDUCED SECTORS	$909,540,936	23,404
TOTAL LOSSES	$1,109,922,072	28,274

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 NORTH DAKOTA 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 Dakota economy. Cigarette sales in North Dakota could fall by approximately 12%. Price Waterhouse estimates that 1,275 North Dakota residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 153 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 Dakota tobacco sector is re-spent in the North Dakota economy which stimulates other sectors. Price Waterhouse estimates that 1,503 North Dakota 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 180 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 333 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. North Dakota cigarette excise tax revenues will drop by $2,580,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$669,768	26
Tobacco Retail Trade	$522,060	44
Tobacco Sector Suppliers	$1,959,432	83
TOTAL TOBACCO SECTOR	$3,151,260	153
EXPENDITURE INDUCED SECTORS	$4,318,752	180
TOTAL LOSSES	$7,470,012	333

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 OHIO
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 Ohio economy. Cigarette sales in Ohio could fall by approximately 12%. Price Waterhouse estimates that 22,421 Ohio residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 2,690 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 Ohio tobacco sector is re-spent in the Ohio economy which stimulates other sectors. Price Waterhouse estimates that 81,860 Ohio 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 9,823 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 12,513 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Ohio cigarette excise tax revenues will drop by $33,780,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$1,638,432	268
Tobacco Manufacturing	$26,808	NA
Tobacco Wholesale Trade	$9,328,176	340
Tobacco Retail Trade	$13,624,968	977
Tobacco Sector Suppliers	$30,835,140	1,105
TOTAL TOBACCO SECTOR	$55,453,524	2,690
EXPENDITURE INDUCED SECTORS	$321,066,252	9,823
TOTAL LOSSES	$376,519,776	12,513

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 OKLAHOMA 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 Oklahoma economy. Cigarette sales in Oklahoma could fall by approximately 12%. Price Waterhouse estimates that 5,214 Oklahoma residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 627 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 Oklahoma tobacco sector is re-spent in the Oklahoma economy which stimulates other sectors. Price Waterhouse estimates that 11,489 Oklahoma 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 1,379 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 2,006 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Oklahoma cigarette excise tax revenues will drop by $7,492,560.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	$39,312	1
Tobacco Wholesale Trade	$2,437,272	87
Tobacco Retail Trade	$3,018,672	222
Tobacco Sector Suppliers	$8,360,664	317
TOTAL TOBACCO SECTOR	$13,855,920	627
EXPENDITURE INDUCED SECTORS	$40,806,912	1,379
TOTAL LOSSES	$54,662,832	2,006

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 OREGON 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 Oregon economy. Cigarette sales in Oregon could fall by approximately 12%. Price Waterhouse estimates that 4,388 Oregon residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 526 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 Oregon tobacco sector is re-spent in the Oregon economy which stimulates other sectors. Price Waterhouse estimates that 16,669 Oregon 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 2,000 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 2,526 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Oregon cigarette excise tax revenues will drop by $12,540,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$1,390,320	49
Tobacco Retail Trade	$3,364,680	219
Tobacco Sector Suppliers	$7,011,888	258
TOTAL TOBACCO SECTOR	$11,766,888	526
EXPENDITURE INDUCED SECTORS	$57,692,388	2,000
TOTAL LOSSES	$69,459,276	2,526

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 PENNSYLVANIA
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 Pennsylvania economy. Cigarette sales in Pennsylvania could fall by approximately 12%. Price Waterhouse estimates that 25,949 Pennsylvania residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 3,113 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 Pennsylvania tobacco sector is re-spent in the Pennsylvania economy which stimulates other sectors. Price Waterhouse estimates that 62,148 Pennsylvania 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 7,458 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 10,571 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Pennsylvania cigarette excise tax revenues will drop by $41,892,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$1,607,832	265
Tobacco Manufacturing	$5,843,880	126
Tobacco Wholesale Trade	$7,199,352	249
Tobacco Retail Trade	$15,163,728	1,026
Tobacco Sector Suppliers	$45,843,864	1,447
TOTAL TOBACCO SECTOR	$75,658,656	3,113
EXPENDITURE INDUCED SECTORS	$243,976,272	7,458
TOTAL LOSSES	$319,634,928	10,571

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.

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**ECONOMIC LOSSES TO RHODE ISLAND
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 Rhode Island economy. Cigarette sales in Rhode Island could fall by approximately 12%. Price Waterhouse estimates that 1,498 Rhode Island residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 179 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 Rhode Island tobacco sector is re-spent in the Rhode Island economy which stimulates other sectors. Price Waterhouse estimates that 4,281 Rhode Island 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 514 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 693 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Rhode Island cigarette excise tax revenues will drop by $4,980,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$499,020	17
Tobacco Retail Trade	$1,177,680	74
Tobacco Sector Suppliers	$2,111,652	88
TOTAL TOBACCO SECTOR	$3,788,352	179
EXPENDITURE INDUCED SECTORS	$15,080,268	514
TOTAL LOSSES	$18,868,620	693

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.

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ECONOMIC LOSSES TO SOUTH DAKOTA
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 Dakota economy. Cigarette sales in South Dakota could fall by approximately 12%. Price Waterhouse estimates that 1,212 South Dakota residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 146 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 Dakota tobacco sector is re-spent in the South Dakota economy which stimulates other sectors. Price Waterhouse estimates that 1,709 South Dakota 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 205 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 351 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. South Dakota cigarette excise tax revenues will drop by $1,788,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$523,788	18
Tobacco Retail Trade	$710,232	60
Tobacco Sector Suppliers	$1,358,568	68
TOTAL TOBACCO SECTOR	$2,592,588	146
EXPENDITURE INDUCED SECTORS	$4,601,460	205
TOTAL LOSSES	$7,194,048	351

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 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.

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ECONOMIC LOSSES TO TEXAS
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 Texas economy. Cigarette sales in Texas could fall by approximately 12%. Price Waterhouse estimates that 28,234 Texas residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 3,388 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 Texas tobacco sector is re-spent in the Texas economy which stimulates other sectors. Price Waterhouse estimates that 76,486 Texas 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 9,178 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 12,566 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Texas cigarette excise tax revenues will drop by $70,332,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	$1,989,252	33
Tobacco Wholesale Trade	$7,463,328	224
Tobacco Retail Trade	$19,731,000	1,288
Tobacco Sector Suppliers	$55,190,844	1,843
TOTAL TOBACCO SECTOR	$84,374,424	3,388
EXPENDITURE INDUCED SECTORS	$285,780,168	9,178
TOTAL LOSSES	$370,154,592	12,566

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 UTAH
FROM INCREASING THE FEDERAL EXCISE TAX
FROM $0.24 TO $0.99 PER PACK

:creasing the federal cigarette tax by $0.75 per pack would have significant impact on the Utah economy. Cigarette sales in Utah ›uld fall by approximately 12%. Price Waterhouse estimates that 446 Utah residents have jobs in sectors linked to the .stribution and retailing of tobacco products. Approximately 294 : these jobs would be lost if the federal cigarette tax is ıcreased by $0.75 per pack.

ı addition, the income created in the Utah tobacco sector is re- ›ent in the Utah economy which stimulates other sectors. Price ıterhouse estimates that 7,116 Utah jobs are created due to this :penditure-induced or ripple effect. Increasing the cigarette tax ׳ $0.75 per pack would lead to a loss of 854 expenditure-induced ›bs.

.1 together, the tax hike would lead to a loss of 1,148 jobs.

.nally, dwindling cigarette sales will also mean less state .g tte excise tax revenues. Utah cigarette excise tax revenues .ll drop by $3,357,600.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$653,184	23
Tobacco Retail Trade	$1,644,852	124
Tobacco Sector Suppliers	$3,769,092	147
TOTAL TOBACCO SECTOR	$6,067,128	294
EXPENDITURE INDUCED SECTORS	$23,973,756	854
TOTAL LOSSES	$30,040,884	1,148

ese estimates for job and compensation loss are based on a comprehensive study of employment and compensation in the U.S. tobacco industry :pa Price Waterhouse in 1992. The economic loss estimates are projected by The Tobacco Institute using a standard price elasticity ıde

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ECONOMIC LOSSES TO VERMONT 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 Vermont economy. Cigarette sales in Vermont could fall by approximately 12%. Price Waterhouse estimates that 845 Vermont residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 102 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 Vermont tobacco sector is re-spent in the Vermont economy which stimulates other sectors. Price Waterhouse estimates that 2,801 Vermont 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 336 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 438 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Vermont cigarette excise tax revenues will drop by $1,608,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$256,128	9
Tobacco Retail Trade	$727,272	49
Tobacco Sector Suppliers	$842,760	44
TOTAL TOBACCO SECTOR	$1,826,160	102
EXPENDITURE INDUCED SECTORS	$10,576,320	336
TOTAL LOSSES	$12,402,480	438

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.

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**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 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 WASHINGTON
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 Washington economy. Cigarette sales in Washington could fall by approximately 12%. Price Waterhouse estimates that 7,072 Washington residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 849 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 Washington tobacco sector is re-spent in the Washington economy which stimulates other sectors. Price Waterhouse estimates that 25,135 Washington 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 3,016 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 3,865 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Washington cigarette excise tax revenues will drop by $23,220,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$2,065,464	57
Tobacco Retail Trade	$5,909,916	372
Tobacco Sector Suppliers	$11,475,480	420
TOTAL TOBACCO SECTOR	$19,450,860	849
EXPENDITURE INDUCED SECTORS	$95,699,436	3,016
TOTAL LOSSES	$115,150,296	3,865

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 WEST 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 West Virginia economy. Cigarette sales in West Virginia could fall by approximately 12%. Price Waterhouse estimates that 3,759 West Virginia residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 450 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 West Virginia tobacco sector is re-spent in the West Virginia economy which stimulates other sectors. Price Waterhouse estimates that 9,790 West 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 1,175 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 1,625 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. West Virginia cigarette excise tax revenues will drop by $4,140,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$277,188	47
Tobacco Manufacturing	$1,430,268	26
Tobacco Wholesale Trade	$1,656,048	64
Tobacco Retail Trade	$2,020,968	158
Tobacco Sector Suppliers	$3,954,516	155
TOTAL TOBACCO SECTOR	$9,338,988	450
EXPENDITURE INDUCED SECTORS	$36,026,736	1,175
TOTAL LOSSES	$45,365,724	1,625

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 WISCONSIN 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 Wisconsin economy. Cigarette sales in Wisconsin could fall by approximately 12%. Price Waterhouse estimates that 9,903 Wisconsin residents have jobs in sectors linked to the production, distribution and retailing of tobacco products. Approximately 1,189 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 Wisconsin tobacco sector is re-spent in the Wisconsin economy which stimulates other sectors. Price Waterhouse estimates that 32,110 Wisconsin 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 3,853 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 5,042 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Wisconsin cigarette excise tax revenues will drop by $21,072,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	$1,129,968	185
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$3,751,956	140
Tobacco Retail Trade	$5,017,848	395
Tobacco Sector Suppliers	$11,583,792	469
TOTAL TOBACCO SECTOR	$21,483,564	1,189
EXPENDITURE INDUCED SECTORS	$115,890,444	3,853
TOTAL LOSSES	$137,374,008	5,042

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 WYOMING 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 Wyoming economy. Cigarette sales in Wyoming could fall by approximately 12%. Price Waterhouse estimates that 796 Wyoming residents have jobs in sectors linked to the distribution and retailing of tobacco products. Approximately 96 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 Wyoming tobacco sector is re-spent in the Wyoming economy which stimulates other sectors. Price Waterhouse estimates that 1,864 Wyoming 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 224 expenditure-induced jobs.

All together, the tax hike would lead to a loss of 320 jobs.

Finally, dwindling cigarette sales will also mean less state cigarette excise tax revenues. Wyoming cigarette excise tax revenues will drop by $708,000.

ECONOMIC LOSSES

SECTOR	PAYROLL LOSSES	EMPLOYMENT LOSSES (JOBS)
Tobacco Growing	NA	NA
Tobacco Manufacturing	NA	NA
Tobacco Wholesale Trade	$167,064	8
Tobacco Retail Trade	$433,008	34
Tobacco Sector Suppliers	$1,447,260	54
TOTAL TOBACCO SECTOR	$2,047,332	96
EXPENDITURE INDUCED SECTORS	$6,364,380	224
TOTAL LOSSES	$8,411,712	320

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.

Testimony Before the
U.S. House Ways & Means Committee
November 1993

- Dr. Dwight Lee, at the request of
  The Tobacco Institute

- Tobacco Growers' Information Committee

2077420629

Statement of
Dwight R. Lee

Ramsey Professor of Economics
University of Georgia, Athens

before the

Committee on Ways and Means
U.S. House of Representatives
November 18, 1993

Mr. Chairman and distinguished members of the Committee, I appreciate the opportunity to testify on issues related to the financing of health care reform. I am the Ramsey Professor of Economics at the University of Georgia.

I am here today at the request of The Tobacco Institute. The Institute has asked me to address questions raised by the Committee's October 29 hearing announcement regarding the Administration's proposal to help finance health care reform by increasing the federal excise tax on cigarettes by 75 cents per pack -- a 312 percent hike. The views expressed in this statement are my own and do not necessarily reflect the views of The Tobacco Institute.

It is important to note, at the outset, that the President has stated that his purpose in proposing to increase the federal excise tax on cigarettes is <u>solely</u> to help finance his health care program -- <u>not</u> to reduce smoking. This is what the President said in response to a question from Andrea Mitchell at his press conference last Friday:

> "I didn't want to raise any money from anybody to do anything other than to pay for the health care program, although I think that higher tobacco taxes [would] discourage use and that's a good thing. But that wasn't what was behind it."

Given that the President's sole justification for increasing the federal cigarette excise tax is to help pay for his health care package, it is fitting that the Committee's questions focus on the economic justification for, and the fairness of, the Administration's proposed tax increase. The Committee's concerns are well-founded.

The Committee has asked, first, whether smokers "inflict significant external costs on the rest of society" and, if so, whether the federal cigarette excise tax should be raised "to deal with this." As I will explain, if smokers do impose external costs on the rest of society, they already are more than paying their own way at current tax levels. It is unfair, therefore, to make them pay more, and it could not be justified economically.

The Committee also has asked whether we can measure how much health care costs would be reduced by raising the cigarette excise tax to the level suggested by the Administration, with the decline in smoking that would be expected to result. I am aware of no hard data that would permit such a measurement. At the same time, though, I would point out that a recent government study has suggested that reducing smoking could <u>increase</u>, not decrease, health care costs in the long run.

Finally, the Committee has asked for an assessment of the effects of the tax increase proposed by the Administration on tobacco production. The proposed tax increase undoubtedly would reduce consumption and thereby decrease production. This would result in increased unemployment nationwide, with the Southeastern states being especially hard hit. The proposed tax increase also would reduce state revenues and trigger additional federal spending that would substantially offset the $10.4

billion in "new" revenues that proponents of the proposed tax increase project.

FAIRNESS ISSUES

The Committee's questions force us to examine the basic purpose of health care reform legislation. Is it to establish a pay-as-you-go system, in which Americans are taxed according to the health care costs that they are thought to incur as individuals, by virtue of their particular behaviors and lifestyles? If so, it would be arbitrary and unfair to single out smokers.

It would be similarly arbitrary and unfair to focus solely on smokers if the purpose of the legislation is to reduce health care costs by promoting "healthier" lifestyles and behaviors. As I have noted, President Clinton has said that this is not the basis on which the Administration has proposed to increase the federal cigarette excise tax. If that were the basis, however, fairness and consistency would require the targeting of a long list of "risky" lifestyles.

From the standpoint of fairness and economic policy, the Administration's proposal to finance health care reform through increased cigarette excise taxes is particularly ironic. A principal aim of the President's health care reform program is to help lower-income families. But cigarette excise taxes, like all other excise taxes, are inherently regressive. The Congressional Budget Office reported in 1987 that a cigarette excise tax increase would hit lower-income families more than six times harder than higher income families. Indeed, the CBO, which studied the distributional effects of excise tax increases on beer, wine, liquor, tobacco, gasoline, airfare and telephone services, concluded that "[a]n increase in the excise tax on tobacco would be the most regressive of all."[1] A Congressional Black Caucus Task Force report released by Congressman Mervyn Dymally (D-Cal.) stated that even a modest increase in excise taxes would "considerably magnify the incidence, prevalence and the enormity of poverty in the United States."[2]

Let me now address the Committee's three questions in greater detail, and from a purely economic standpoint, leaving aside these questions of fairness.

EXTERNAL COSTS

External costs refer to costs that are incurred by one person but paid by another. If you incur a cost and you pay it, it is an internal, not an external cost. Thus, if you miss work and lose a day's pay, that is an internal cost. If you get sick and a total stranger pays for your treatment, that is an external cost.

The Committee has asked generally about the external costs of smoking. It has not limited its inquiry to external costs related to health care. I will consider the various types of possible external costs separately.

As discussed below, smokers already pay at current tax levels more than their fair share of any external costs borne by the government as a supposed result of their smoking. It is

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[1] Congressional Budget Office, "The Distributional Effects of an Increase in Selected Federal Excise Taxes," pp. 1-2 (Jan. 1987).

[2] Report for the Chairman of the Congressional Black Caucus, "Analyzing the Possible Impact of Federal Excise Taxes on the Poor, Including Blacks and Other Minorities," p. 4 (July 1987).

inappropriate, moreover, to view private health insurance premiums paid by nonsmokers as external costs. Finally, foregone wages and "lost" productivity are not properly viewed as "external" costs. It has not been established, in any event, that smokers, as a group, are less productive than nonsmokers when all relevant factors are taken into account.

A. <u>Health Care</u>

1. <u>Costs to Government</u>

Let's start with the external costs that smokers are said to impose on federal, state and local governments in health care expenditures attributed to smoking-related illnesses (<u>i.e.</u>, illnesses that reportedly are suffered more commonly by smokers than by nonsmokers).

In a report released in May of this year, the Office of Technology Assessment (OTA) estimated that smokers "cost" federal, state and local governments $8.9 billion in health care expenditures because of illnesses viewed as smoking-related.[3] Assuming the validity of that estimate for the sake of discussion, the fact is that smokers currently 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. Only smokers pay this $13.3 billion. Nonsmokers do not.

Thus, through excise and sales taxes, smokers currently are paying $4.4 billion <u>more</u> to federal, state and local governments than the $8.9 billion that OTA claims smokers "cost" all levels of government in health care expenditures. OTA estimates the federal government's share of these government "costs" at $6.3 billion. This translates to 24 cents per pack of cigarettes sold -- the current level of the federal cigarette excise tax. Clearly, with respect to government costs, smokers are more than "paying their own way" at current tax levels.

2. <u>Private Medical Costs</u>

OTA estimates that smokers also generate $11.9 billion in health care costs that are not borne by the government -- that is, health care costs that are paid by smokers individually or through private insurance. For purposes of accurate calculations, even this $11.9 billion estimate must be reduced to $7.5 billion by the $4.4 billion in excess taxes that smokers pay. The Committee also should recognize, however, that there are more fundamental problems with OTA's estimate.

By definition, health care costs paid by smokers are not "external" costs. Such health care costs include co-payments, deductibles and other costs that are not covered by insurance. These out-of-pocket costs cannot properly be included in any tabulation of "external costs" that smokers are thought to impose. OTA never attempted to calculate or disaggregate these costs that are paid by smokers. Thus, it has no basis to claim that smokers do not also pay their way in the private insurance market.

It is, in any event, inappropriate to view private health insurance premiums paid by others as an "external" cost. Insurance by definition involves the pooling or sharing of risk: I promise to pay your bills if you get sick, and you promise to pay mine if I get sick. Because the obligation to pay is reciprocal, insureds are, in effect, one person. Since we are a "joint enterprise" for the purpose of sharing risk, the cost that each of us may impose on the other is therefore not genu-

[3] "Smoking-Related Deaths and Financial Costs: Office of Technology Assessment Estimates for 1990" (May 1993).

inely external. Neither does the fact that an employer may pay for an employee's health insurance make the premium an external cost. Health insurance premiums paid by employers ultimately are paid by employees through reduced wages.

The premise of insurance is the spreading and sharing of risk. It would defy this premise to isolate smokers as a "high risk" group for purposes of financing health care reform. It also would perpetuate a discriminatory feature of our current health care system, a feature that the Administration's reform package seeks to eliminate.

Ironically, Secretary Bentsen has suggested that an increase in the federal cigarette excise tax is justified as a substitute for differential premiums for smokers and nonsmokers currently offered by heath insurers. Such premium differentials generally would be disallowed by community rating under the Administration's proposal. The Surgeon General, however, has indicated that it is quite uncommon for private health insurers to offer such premium differentials for smokers and nonsmokers. Even more to the point, the Surgeon General has stressed the paucity of "actuarial data to document that nonsmokers incur fewer health care costs" than smokers.[4] Under Secretary Bentsen's rationale, therefore, the proposed tax increase would "substitute" for a premium differential that is more imaginary than real and that is not justified actuarially in any event.

B. Foregone Wages and "Lost" Productivity

OTA suggests that smoking results in $40.3 billion in foregone wages and $6.9 billion in "lost" productivity. Even assuming for the sake of discussion that these estimates were accurate, they do not represent "external costs." The most important point to make here is that, since these "costs" are not related to health care, it is inappropriate to consider them in determining whether a proposed federal cigarette excise tax increase may be justified as a means of financing health care reform.

These rather obvious points aside, foregone wages are, by definition, costs borne directly by the employee. They cannot be considered costs incurred by anyone else. Thus, the $40.3 billion that OTA assigned to foregone wages cannot be viewed as an external cost that justifies any increase in the cigarette excise tax.

"Lost" productivity cannot be considered a cost at all unless one assumes that society somehow is entitled to maximum productivity from its members, so that anything less than maximum effort is a social "loss." That is, of course, an absurd conception. When a person is absent from work for whatever reason -- to go on vacation, have a tooth pulled, serve on a jury, or attend a child's school play -- there is no "cost" to society. The fact that someone does something other than work does not represent a social loss unless we view ourselves as "owned" by society and society is viewed as having the power to determine how we spend our time based on its own criteria of value. This is not my vision of America or any other free society.

It has not been established, in any event, that smokers, as a group, are less productive than nonsmokers when all relevant factors are taken into account. The large majority of studies that report an association between smoking status and increased employee absenteeism acknowledge that factors other than smoking may account for the apparent association. As James

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4 See Reducing the Health Consequences of Smoking -- 25 Years of Progress: A Report of the Surgeon General 548-49 (1989).

Athanasou, an antismoking advocate, stated in an early review article:

> "Sickness absence is a complex behavioral phenomenon in which a multiplicity of health, social and psychological factors are involved. * * * Most investigators have implicitly assumed that the only difference between a non-smoking and a smoking group is their tobacco habit and that any other personal factors are equally distributed within these groups. * * * None of the reported studies has considered the additional effects on sickness absence of job satisfaction, attitudes to work, personality, other psychosocial or socioeconomic variables and the urban factor in conjunction with the effects of smoking."[5]

Professors Robert D. Tollison and Richard E. Wagner likewise commented in their 1992 study of the issue:

> "[S]mokers and nonsmokers are not identical in all respects other than smoking. Among other things, smokers have an above-average representation in blue collar occupations, they also consume on average an above-average amount of alcohol, although there are many teetotaling smokers and nonsmoking alcoholics, and they generally exercise less than nonsmokers, although smoking bicyclists, swimmers, and joggers can be found. In assuming that people are identical except for their smoking, various diseases and their associated costs are improperly attributed to smoking."[6]

A recent study by Gabel and Colley-Niemeyer is instructive. These researchers investigated absenteeism among employees of a state public health department in the U.S. in a 1990 study. Although they found a higher rate of absenteeism among smokers than among non-smokers, they also suggested that "in addition to education level and sex, selected life-style behavior may be related to smoking [that] may significantly influence sick leave and absenteeism."[7] As the editor of the journal in which the study appeared stated, "separating absenteeism differences in smokers and nonsmokers is difficult if these two groups of workers differ in other health-related behavior."[8]

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[5] Athanasou, James A., "Sickness Absence and Smoking Behavior and Its Consequences," Journal of Occupational Medicine (1975), vol. 17, p. 444.

[6] Tollison, Robert D. and Wagner, Richard E., The Economics of Smoking (1992) at 64.

[7] Gabel, Harold D. and Colley-Niemeyer, Brenda, "Smoking in a public health agency: Its relationship to sick leave and other lifestyle-behavior," Southern Medical Journal (1990), vol. 83, no. 1, p. 16.

[8] Novotny, Thomas E., "Smoking policies and the healthy worker effect," Southern Medical Journal (1990), vol. 83, no. 1, pp. 11-12. See also, e.g., Carmichael, A. and Cockcroft, A., "Survey of Student Nurses' Smoking Habits in a London Teaching Hospital," Respiratory Medicine (1990), vol. 84, p. 280; Hawker, Rosalind and Holtby, Ian, "Smoking and absence from work in a population of student nurses," Public Health (1988), vol. 102, pp. 161-67; Parkes, Katharine R., "Smoking as a moderator of the relationship between affective state and absence from work," Journal of Applied Psychology (1983), vol. 68, no. 4, pp. 698-

Professor Richard Ault of Auburn University and several colleagues recently reviewed a series of studies suggesting that smokers miss more work than nonsmokers because they smoke. Ault and his colleagues found that the studies merely compared absenteeism rates for smokers and nonsmokers, without considering whether the observed difference was due to smoking per se or to other underlying determinants of absenteeism that are more prevalent among smokers than among nonsmokers. According to Ault, the failure to consider such other determinants has resulted in "spurious conclusions about the relationship between smoking and absenteeism."[9]

THE EFFECT OF A TAX INCREASE ON DEMAND FOR HEALTH CARE

The Committee also has asked whether we can measure how much health care costs would be reduced by raising the cigarette excise tax to the level suggested by the Administration, with the decline in smoking that would be expected to result. As noted, I am aware of no hard data on this point. However, a number of experts and government authorities assume that smokers would live longer and make greater demands on the health care system if they did not smoke, and thus believe that reducing smoking might well increase, not decrease, health care costs.

OTA stated in its recent report, for example, that the reduction or elimination of smoking --

> "may not lead to savings in health care costs. In fact, significant reductions in smoking prevalence and the attendant increase in life expectancy could lead to future increases in total medical spending, in Medicare program outlays, and in the budgets of the Social Security and other government programs."

As an economist, I cannot assess the validity of OTA's assumption that reducing smoking would increase life expectancy. But if OTA's assumption is accepted, its statement -- that reducing smoking could increase health care costs over the long run -- seems self-evident. OTA's statement likewise makes it self-evident that proponents of a federal cigarette excise tax increase cannot justify such a tax increase as a means of reducing the nation's escalating health care costs.

THE EFFECTS OF THE TAX INCREASE ON PRODUCTION

There is no dispute that the proposed tax increase would reduce consumption and would thereby decrease production. This and other effects of reduced consumption would dramatically increase unemployment and substantially offset the $10.4 billion in additional federal revenues that proponents of the tax increase project.

According to Price Waterhouse, there are approximately 681,000 jobs in the U.S. tobacco sector of the economy.[10] The tobacco sector includes tobacco growing and manufacturing, the distribution and retailing of tobacco products, and the industries that supply these sectors.

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808 ("[A] major methodological limitation of many studies relating to sickness absence and smoking is the implicit assumption that smokers and nonsmokers differ only in smoking behavior.").

[9] Ault, Richard W., et al., "Smoking and Absenteeism," Applied Economics (1991), vol. 23, pp. 743, 751-52.

[10] Price Waterhouse, "The Economic Impact of the Tobacco Industry on the United States in 1990" (Oct. 1992).

The Administration estimates that the proposed 75-cent-per-pack cigarette excise tax increase would result in a 12-15 percent reduction in demand. It is estimated that this would cost about 82,000 tobacco sector jobs. Along with these lost jobs would be a payroll loss of approximately $1.9 billion. Through an inevitable ripple effect, this payroll loss would generate a loss of nearly 192,000 jobs throughout the economy.

The South would be particularly hard hit by these job losses. It is estimated that nearly 40,000 tobacco sector jobs would be eliminated in 12 Southeastern states. In the six major tobacco producing states of Georgia, Kentucky, North Carolina, South Carolina, Tennessee, and Virginia the tobacco sector job losses are estimated to come to approximately 33,500 jobs.

The proposed tax increase would trigger a significant increase in required federal spending as well. Increases in federal spending would be required as tobacco workers become unemployed because of decreased production. A reasonable estimate of these losses is $1.72 billion.

In addition, the tobacco component of the Consumer Price Index (CPI) is 1.7458 percent. A 75-cent increase in the price of a pack of cigarettes (a 40 percent increase) would boost the CPI by .7 percent. That in turn would require a .7 percent increase in federal spending on all indexed federal programs, such as the Social Security, food stamps, and federal pension programs. At 1993 spending levels, this would amount to $3.92 billion in additional obligated federal spending.

The total quantitative losses come to $5.64 billion, which leaves only $4.76 billion net revenue from the proposed 75-cent excise tax increase. This is less than half the gross estimate proponents claim the proposed tax increase actually would raise. When the multiplier effect takes effect, the net revenue from the proposed tax increase is reduced even further.

It also should be recognized that reduced cigarette sales from the proposed federal excise tax increase will reduce state cigarette excise tax revenues. These revenues are currently around $6.7 billion per year. Given a reasonable price elasticity of demand for cigarettes, the proposed 75-cent increase in the price of cigarettes would reduce this revenue by approximately $800 million. Some of this loss to the states undoubtedly would have to be made up by the federal government. This would represent yet another source of erosion of the net revenue the federal government would receive from the proposed cigarette excise tax increase.

* * *

Increasing the federal cigarette excise tax is simply not justified from an economic standpoint. Smokers already more than "pay their way" at current levels of taxation. Making them pay more would be discriminatory and unfair. In addition, OTA's recent report suggests that reducing smoking actually could <u>increase</u> health care costs over the long run rather than reduce them. Finally, the proposed excise tax increase would trigger additional federal expenditures that would substantially offset the new tax revenues and impose significant unemployment costs on the economy, particularly in the South.

For all of these reasons, the proposal to increase the federal cigarette excise tax to finance health care reform should be rejected.

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Statement of
Fred Bond, Vice President
Tobacco Growers' Information Committee, Inc.

Before the US House Ways & Means Committee
On the Administration's Health Security Act
November 18, 1993

Thank you, Mr. Chairman, for the opportunity to appear before this Committee and discuss "the effect of the tax increase proposed by the Administration on the production of tobacco."

My name is Fred Bond. I am testifying on behalf of the Tobacco Growers' Information Committee, an organization representing hundreds of thousands of tobacco farmers and family members in 22 states across the country where tobacco is produced.

President Clinton proposes a drastic increase in tobacco taxes to pay for U.S. health care reform. The majority of tobacco growers believe that all Americans should have equal access to adequate health care.

Tobacco growers accept that as wage-earners, property owners and consumers, a portion of what they earn, own or buy will be taxed. In fact, many tobacco growers are willing to pay their fair share for a better health care system.

However, tobacco growers are not willing to shoulder a far greater tax burden or to sacrifice their livelihood and their dignity to pay for a government program intended for all Americans. They expect taxes to be fair -- and not to single out certain Americans to contribute more than their share.

Tobacco is one of the Southeast's leading industries. Various facets of the U.S. tobacco sector, which includes tobacco growing, manufacturing and sales, employ nearly 325,000 people from this region of the country. All of these folks have something in common -- they all stand to lose significantly from tax-increase proposals being debated here in Washington.

Tobacco contributes significantly to the nation's economy -- in both jobs and revenues. In 1990, approximately 2.2 million workers derived income from the tobacco industry. These workers earned over $66 billion. In that same year, the tobacco industry contributed to the federal government over $21.9 billion in non-sales-related taxes: $11.4 billion in personal income taxes, $2.6 billion in corporate taxes, and $7.9 billion in FICA. The industry also contributed to the states $2.8 billion in personal income taxes and $855.5 million in corporate taxes.

Consider the tobacco tax contribution from a different perspective. Tobacco often is referred to as a "cash crop." In dollars and cents, each acre of tobacco alone yields more than $30,000 in revenue for the federal government. That figure climbs to around $70,000 per acre when state and local revenues are factored in.

How dire would the consequences of a tobacco excise tax increase be? It is estimated that a 75-cent increase in the tobacco tax would wipe out more than 273,000 tobacco-related jobs across the country. About 100,000 of these tobacco sector jobs would be from Southern states alone.

The tobacco tax increase also would eliminate $8 billion in individuals' salaries upon which the economy depends for strength and recovery. State governments would suffer revenue shortfalls as tax collections fall with the projected decline in jobs and retail sales. How will the states to make up the $1.55 billion difference?

This is unacceptable. We must devise a method to fund health care reform without calling on specific geographic regions to make unfair sacrifices.

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There are some interests who suggest implementing crop "diversification" programs to help tobacco farmers make the shift to another crop. Some specifically suggest that a portion of the federal tobacco tax should be earmarked to underwrite a transition. A check from the government to the farmer is not going to salvage the local car dealership, local churches and schools, restaurants, farm equipment stores and all the other elements of communities.

Tobacco farmers are already well diversified. Most tobacco is grown on farms where the bulk of the acreage is devoted to other crops such as soybeans and corn, or to other uses such as raising cattle or hogs. Yet, without tobacco, a farm family cannot pay their bills. Nearly 80 percent of all flue-cured tobacco farms derived half of their gross farm income from tobacco. And about 65 percent of all burley tobacco farms obtained more than 50 percent of their gross farm income from tobacco.

Tobacco areas have achieved maximum diversification. Further diversification to crops considered exotic for tobacco producing areas would not support existing farm families; growers in other parts of the United States would not appreciate subsidies to help former tobacco farmers compete with them.

I would like to address other matters pertaining to the impact of tobacco tax increases on tobacco growers. The 1993 flue-cured tobacco quota was set at 891 million pounds in December 1992. At that time, there was a strong market demand for approximately 815 mil. lbs. of flue-cured tobacco. Uncertainty created by cigarette excise tax increases by as much as $2.00 per pack caused demand for flue-cured tobacco to drop by as much as 125 mil. lbs., or a 14 percent drop in manufacturer and dealer purchases.

The additional 125 mil. lbs. placed under loan in the flue-cured tobacco grower owner marketing cooperative resulted in depressed returns to growers and a guarantee of the future increased marketing assessments. Tobacco grower owned marketing cooperatives are mandated by federal law at no net cost to the taxpayer. Losses in the sale of loan stocks are made up by the grower and purchaser in the form of marketing assessments. The threat of a cigarette excise tax increase has cost growers millions of dollars this year in personal income and, because of large inventories, will cost the growers millions of dollars in personal income in the future.

U.S. Department of Agriculture analysts have recently given an unofficial projection of the 1995 National Flue-Cured Marketing Quota. Official projections can only be made using existing laws that might impact tobacco. However, these projections took into account a 75-cent-per-pack cigarette tax increase. These projections, with the 75-cent increase, decrease the flue-cured quota to a catastrophic 50 percent from current levels by 1995 -- or a 445 mil. lb. decline.

In conclusion, Mr. Chairman, we believe that a solution to the nation's health care challenge should be constructed on a solid foundation. All members of society who can, should pay their fair share. Financing progressive government through regressive means forces a few Americans to shoulder the tax burden of the entire society. Singling out one product, in this case tobacco, to pay more is unfair and unwise policy.

The tobacco tax punishes, in an economic sense, the very people the Administration and many in Congress claim they want most desperately to help -- working Americans and their families who play by the rules.

Tobacco tax increases are bad tax policy. Raising tobacco taxes will only create new fiscal problems for hundreds of thousands of hard working Americans, and for state and local governments across the country.

Tobacco growers from across the United States do support health care reform. But we will <u>not</u> stand by and watch our livelihoods be destroyed by this drastic tax increase.

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Just a few weeks ago, Mr. Chairman, you said during an interview on CNN that you didn't think the purpose of the legislation was to "put people out of business [by] taxing them so heavily."

While it may not be the intent of this legislation, it surely will be the outcome. Thank you.

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Tobacco Industry Labor Management Committee-Supported Witnesses:

- Bakery Confectionery & Tobacco Workers Union International
- Coalition of Labor Union Women
- A. Philip Randolph Institute
- Labor Council for Latin American Advancement
- American Agriculture Movement
- Mattie Mack
- National Consumers League
- National Council of Senior Citizens
- Citizen Action

Testimony of Robert Curtis
President, Kentucky AFL-CIO
and International Vice President,
Bakery, Confectionery and Tobacco Workers International Union
before the
Committee on Ways and Means
United States House of Representatives

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Mr. Chairman, members of the committee, my name is Robert Curtis and I am President of the Kentucky State AFL-CIO. I am also International Vice President for the Tobacco Sector of the Bakery, Confectionery and Tobacco Workers International Union (BC&T), which represents 125,000 hard-working men and women.

Let me begin by saying that I grew up on a tobacco farm.

Mr. Chairman, I am here today because tobacco workers and their families are deeply concerned about the proposed 75-cent increase in the federal cigarette tax.

The labor movement supports affordable, accessible health care for all Americans. We strongly support efforts to reform our country's health care system.

But Mr. Chairman, there is a fly in the ointment.

President Clinton said that health care reform will expand the American job base.

We disagree.

Our union recently conducted a study on employment and compensation in the U.S. tobacco industry. We found that a 75-cent increase in the cigarette tax would cost more than 80,000 American jobs.

That's 80,000 men and women out of work.
That's 80,000 American families thrown on the scrap-heap.
And these jobs, Mr. [insert name here] and Mr. [insert name here], are located in one particular region of the country -- the South.

Our figures show that the south will lose close to 40,000 jobs. That's three-and-a-half times as many jobs as the rest of the country. My state -- Kentucky -- would lose more than 7,000 jobs, second only to North Carolina.

Let me emphasize that we are not talking here about losing low-wage, service-sector jobs. We are talking about losing the highest paid manufacturing jobs in the country.

Mr. Chairman, health care may be our country's number one issue. But we do not believe that one group of American workers in one industry in one region of the country should be forced to bear the entire burden.

Throughout the south, tobacco jobs allow hard-working men and women to raise their families, educate their children, and provide for their own retirement.

Mr. Chairman, I represent people like ... [insert names here]

In countless communities from Richmond, Virginia, to Macon, Georgia, Americans depend on tobacco revenue for their economic survival.

Tobacco is the cornerstone of the southern economy.

Retraining is often talked about as a solution to job loss.
Mr. Chairman, retraining is not the answer. We support retraining programs. But we must ask ourselves this question -- retraining for what? For part-time work at Domino's pizza for $5.35-An-hour? Most displaced tobacco workers would find themselves lost in the want-ads.

If they got lucky, they might get the chance to compete for a minimum-wage, part-time job, a job without security or benefits.

If they try to stay in an extended retraining program, how will they support their families after their unemployment benefits run out?

Mr. Chairman, we believe that health care reform can succeed. But first, Americans must believe that the program includes universal coverage, cost-containment, and fair financing.

For my union's members, the bottom-line is fairness. Fairness for ourselves, our families, our communities, and our region.

The proposed tobacco tax does not meet this fairness test.

Before thousands of honest, hard-working Americans like [insert names here] lose their jobs and their future, we ask the members of this committee to reconsider this proposal.

Thank you.

Testimony of Gloria Johnson
President of the Coalition of Labor Union Women
Before the House Committee on Ways and Means
U.S. House of Representatives
on the Financing Provisions
of the Administration's Health Security Act

Gloria Johnson, President
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15 Union Square
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Testimony of Gloria Johnson
President of the Coalition of Labor Union Women
Before the House Committee on Ways and Means
U.S. House of Representatives
on the Financing Provisions
of the Administration's Health Security Act

My name is Gloria Johnson. I am President of the Coalition of Labor Union Women (CLUW), the nation's only organization of trade union women. CLUW is an organization of 20,000 members from 75 affiliated chapters, representing 7.5 million women in unions from diverse geographic, industrial and occupational backgrounds. Since its inception in 1974, CLUW has been a strong voice on issues ranging from reproductive rights and affirmative action, to family leave and national health care reform.

The Coalition of Labor Union Women applauds the courage and commitment of President Clinton and First Lady Hillary Rodham Clinton to take on the issue of health care reform. Thanks in large part to their leadership, we now have an historic opportunity to enact a national health care plan that will guarantee everyone in this country access to high quality, affordable and comprehensive health care benefits.

The Coalition of Labor Union Women is on record in support of a single-payer approach to health care reform. We have endorsed and strongly support the American Health Security Act (H.R. 1200 and S. 491) introduced by Congressman Jim McDermott (D-WA) and Senator Paul Wellstone (D-MN). CLUW believes that ultimately the United States will have to move to a single-payer system in order to solve the many fundamental problems we face in our health delivery system. That being said, CLUW is committed to passage of health care reform that meets the principles of a single-payer system and serves the needs of working women and their families. On close examination, the Administration's Health Security Act, meets several of CLUW's basic principles for reform.

One of these key principles is universal access and we commend President Clinton's commitment to providing universal coverage by 1998. No other health reform proposal under consideration -- other than single-payer -- comes close to achieving this important goal.

Currently 15 million American women have no health insurance and nine million children are uninsured. Together, women and children comprise over two-thirds of the 37 million Americans without coverage. All too often jobs that are typically "women's work" like food service, clerical or retail jobs have little or no health coverage. Women also make up two-thirds of the part-time workforce and most part-time jobs provide no health benefits. Women, particularly working women, will benefit disproportionately from the inclusion of universal coverage in the Clinton bill.

Strong cost containment is a second principle by which CLUW evaluates any health reform legislation. The Administration's bill effectively puts the breaks on spiraling health care costs through statutory limits on the annual increase in insurance premiums. This single feature of the Clinton bill would likely save working women and men and all consumers billions of dollars every year.

Comprehensive benefits, including the full range of women's health care needs, is a crucial provision of the health reform package. We applaud the Clinton plan for guaranteeing a uniform, national benefit package that mirrors some of the best private health plans currently available. Better still, the Administration's plan emphasizes preventive care services designed to keep Americans healthy rather than treat them only after they become ill.

Delivery of routine mammograms, Pap smears, pre- and post-natal health care top the list of preventative measures that, if available to all women, could dramatically improve women's health and save lives. This year, 44,000 women will die of breast cancer; 13,200 of these deaths could have been prevented by early detection through mammograms and early treatment. Nine out of 10 deaths from cervical cancer could be prevented by early detection through regular Pap smears. Similarly, 25% of all pregnant women do not receive adequate

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prenatal care, a major cause of low birth weight in infants.

The Administration's Health Security Act goes a long way to address women's health care needs. The standard benefit package combined with routine physical examinations, preventative screenings and laboratory tests would provide millions of American women with basic care that is currently out of reach. In the area of family planning, the plan would offer the full range of reproductive health services, including abortions.

Under the Clinton plan, health security would become a reality for the nation's 65 million children. The standard benefit package covers children for well-baby and well-child check-ups, routine immunizations, and dental and vision care up to age 18. Fully funding the Special Supplemental Food Program for Women and Children (WIC) will help meet the nutritional needs of low-income women and children. Together, these benefits would enhance not only health of millions of children, but also the peace of mind of their parents.

The Clinton Administration has displayed foresight and leadership by introducing a bill that acknowledges that chronic care needs are as important as acute care. The creation of a long-term home and community-based care program for Americans of all ages takes the crucial first step of meeting the chronic care needs that particularly burden our elderly. A new prescription drug benefit for the elderly and a commitment to mental health coverage are additional elements of the expansion of coverage many Americans would achieve under the President's plan.

The financing of health care reform may be the most difficult aspect of developing a plan. Yet, when it comes to fairness and equity, it is also the single most important component of any reform package. CLUW believes that health care reform must be financed in a progressive manner based on ability to pay. To that end, we have consistently supported income taxes as the preferable funding mechanism for the nation's health care program. The Administration plan's reliance on flat premiums and excise taxes is a matter of much concern to the working women of CLUW. Consumer excise taxes -- whether broad-based value added taxes or narrow tobacco taxes such as those in the Administration's proposal -- are regressive, costing those with the least the greatest share of their income. Unfortunately, working women would bear a disproportionate burden. We would like to see the new health care program improve rather than exacerbate this workplace inequity and hope that this is achieved as health reform moves through Congress.

America's health care system is in critical condition and is in urgent need of reform. President Clinton has taken an admirable first step by introducing legislation that will address many of the most serious problems which exist in our current system. CLUW applauds the Administration's efforts on three of our most important principles for health care reform: universal coverage, comprehensive benefits and cost control.

Thank you.

Testimony of Norman Hill
President of the A. Philip Randolph Institute
Before the House Committee on Ways and Means,
United States House of Representatives
on the Financing Provisions
of the Administration's Health Security Act

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Testimony of Norman Hill
President of the A. Philip Randolph Institute
Before the House Committee on Ways and Means,
United States House of Representatives
on the Financing Provisions
of the Administration's Health Security Act

Mr. Chairman and Members of the Committee:

My name is Norman Hill and I am the president of the A. Philip Randolph Institute (APRI), an organization of African-American trade unionists established in 1965 by the late Civil Rights and labor leaders, A. Philip Randolph and Bayard Rustin. APRI has over 150 chapters nationwide, and I am proud that our voter participation campaigns have brought millions of African Americans to the polls.

On behalf of our two million members, I want to express our support for President Clinton's efforts to reform the nation's ailing health care system. All Americans are anxious to see health care costs brought under control and universal access to health care assured -- two major goals of the Clinton program.

African American workers comprise a large proportion of the uninsured. Even those who have health insurance live in fear of losing their jobs and the health insurance benefits that often are provided with employment. For this reason, we are particularly pleased with the President's commitment to providing universal access to health insurance benefits for all Americans. The Health Security Act includes a provision requiring employers to pay 80 percent of an employee's insurance premium. Although this provision is controversial, we view it as one of the most important elements of the President's plan. For those employers who cannot afford to bear the full burden of this cost, the plan provides significant subsidies to ease that burden.

APRI also applauds President Clinton's recognition that skyrocketing health care costs must be controlled for health care reform to be successful. We believe that limiting the annual increase in health insurance premiums will be a significant step forward in reducing these costs. In addition, as fewer health plans compete for larger shares of the consumer market, costs increases among insurance companies may also be reduced.

APRI is concerned, however, that the health care access and security that we so desperately need may come at the expense of low- and middle-income African Americans. Last year, we released a study titled Fair Taxes: Still a Dream for African Americans. The study shows that low- and middle- income African Americans pay a far higher share of their income in federal payroll and excise taxes as well as state and local taxes than wealthy Americans. In fact, an African American family of four with a combined income of $25,000 can pay proportionately almost six times more of its income in federal excise taxes on products like gasoline or tobacco than a family making $250,000 a year.

Whether you are African-American, Hispanic or Caucasian, if you are poor or middle-class, you will pay a higher percentage of your income in all of these taxes than if you are very rich. Our concern with the Health Security Act is that it relies heavily on flat premiums and tobacco excise taxes for financing. Based on the evidence provided in our own study, in addition to a number of studies and analyses by groups like Citizens for Tax Justice, this legislation places an unnecessary burden on the backs of all low-and middle-income Americans, including African Americans.

Health care reform is desperately needed, but a new health care system should not exacerbate existing inequities in this country. Over-reliance on regressive taxes will do just that.

As the President's health care reform plan moves through Congress, we call upon lawmakers to work with President Clinton to finance health care reform in a fair and equitable manner -- in a way that asks all Americans to contribute based on their ability to pay, rather than taking more from those who can least afford it.

**Testimony of Ralph Jimenez, President,
Labor Council for Latin American Advancement
Before the House Committee on Ways and Means,
United State House of Representatives
on the Financing Provisions
of the Administration's Health Security Act**

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Testimony of Ralph Jimenez, President,
Labor Council for Latin American Advancement
Before the House Committee on Ways and Means,
United State House of Representatives
on the Financing Provisions
of the Administration's Health Security Act

Mr. Chairman and Members of the Committee:

My name is Ralph Jimenez and I am President of the Labor Council for Latin American Advancement (LCLAA). On behalf of the 1.4 million LCLAA members, I want to express our support for President Clinton's proposed health care reform plan. The President is to be commended for taking action to resolve a serious crisis for millions of Americans.

As the Hispanic arm of the AFL-CIO, LCLAA joins with countless working men and women who are anxious to see health care costs brought under control and universal access to health care assured. Hispanic workers comprise a large segment of the 37 million Americans without health insurance. Even those who have health insurance live in fear of losing their jobs and the health insurance benefits that often are provided with employment.

We are proud of the union health care protection provided to members of LCLAA, particularly in this time of escalating health care costs and efforts by employers to cut back on health care benefits. However, we also recognize that these benefits have an adverse affect on the cost of health care which has depressed wages and benefits. For this reason, LCLAA strongly supports the President's plan to contain health care costs by limiting annual increases in insurance premiums.

In addition, LCLAA strongly endorses the Administration's effort to provide universal health care protection for the uninsured. Far too many employers fail to offer health insurance to their employees. When Hispanics and other minority Americans are fortunate enough to find work, they rarely enjoy the benefits of health care coverage. Not only does the President's plan require employers to offer coverage, it also offers subsidies to employers who are unable to bear the full cost of insuring their employees.

We applaud President Clinton's vision on the health care issue. But essential to any health care plan is a source of funding that is fair and equitable to all Americans. The President's reliance on flat premiums and excise taxes as sources of funding for health care will not only put serious reform in jeopardy, but also unfairly discriminate against low- and middle-income Americans.

Last year, LCLAA released a study entitled *Hispanics and Taxes: A Study in Inequality*, which shows that Hispanics in the United States pay a far higher share of income in payroll and consumer excise taxes than do the very wealthy. Financing the new health care program should improve, rather than exacerbate, this inequity. We are concerned that, to the extent the plan relies on excise taxes as a major source of new financing, this goal will not be met.

As our study shows, federal taxes in the United States are becoming more and more regressive. In particular, consumer excise taxes take a greater share of income from Americans of low and moderate incomes than from the wealthiest Americans. This policy of regressive taxation is extremely detrimental to the growing Hispanic population in the United States, which still predominantly falls into the low- and moderate-income categories.

The LCLAA study provides telling statistics of just how biased the current United States tax system has become on Hispanic Americans. Following are three key findings of the study:

1. A Hispanic family of four with an income of around $18,000 will pay in federal consumer excise taxes a share of their income between 10 to 15 times greater than a

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family in the richest two percent of the nation.

2. A female Hispanic head of household with one child and an income of $17,200 will pay in federal payroll taxes proportionately three times as much as a family whose income falls in the top two percent of the nation.

3. The third major federal tax, an income tax, is much fairer for Hispanics. Still, the income tax has undergone dramatic changes due to Reagan-Bush tax policies of the past decade, many of which have worked to the advantage of the wealthy and at the expense of minorities such as Hispanics.

These findings point toward one obvious conclusion: President Clinton's health care plan relies too heavily upon regressive taxes and insurance premiums and not heavily enough on fairer, more progressive income taxes. In essence, President Clinton, like many Presidents in the past, is counting on low- and middle-income Americans to bear the brunt of financing a plan that will benefit all Americans.

As the health care issue is debated over the coming months, please keep in mind that it was Presidential candidate Bill Clinton who said that he would not raise taxes to finance health care reform. We now have President Bill Clinton who seeks to have lower- and middle-income Americans bear the financial brunt of his health care plan.

We all want the President to succeed in his health care reform efforts, and controlling health care costs and providing universal coverage is essential to any health care plan. But relying on flat premiums and a tobacco excise tax as major sources of funding is an accident waiting to happen.

Thank you.

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Testimony of David McCarty
President of the American Agriculture Movement
Before the House Committee on Ways and Means,
United States House of Representatives
on the Financing Provisions
of the Administration's Health Security Act

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Testimony of David McCarty
President of the American Agriculture Movement
Before the House Committee on Ways and Means,
United States House of Representatives
on the Financing Provisions
of the Administration's Health Security Act

Mr. Chairman and Members of the Committee:

My name is David McCarty. I am president of the American Agriculture Movement (AAM), an organization composed of and dedicated to the survival of America's family farmers. We have members in 35 states who represent farmers producing a wide variety of commodities across North America, and it is on their behalf that the AAM submits this testimony.

Rural Americans are well aware of the problems this country is facing in the health care debate, and we wholeheartedly support President Clinton's efforts to reform the nation's ailing health care system. We applaud his efforts to ensure health coverage for all Americans, and at lower costs. Unfortunately, we feel the Administration's plan fails to consider the pocketbooks of all citizens in all regions of the country. Yes, the nation's health care system needs an overhaul -- but not at the expense of the families who farm this country's land.

The AAM has a long history of opposition to excise taxes such as those levied on gasoline, alcohol and tobacco. These excise taxes are regressive and just plain unfair. It is not fair that rural men and women must pay a significantly higher proportion of their income on these taxes. For this reason, the AAM supports fair taxation for all Americans, regardless of how they earn their living.

Rural families rely heavily on the income generated from one of its most profitable crops -- tobacco. Tobacco is one of only two crops allowed by federal policy to return adequate profit to growers. The other is peanuts. The tobacco and peanut programs are model agriculture programs that other commodity programs should copy.

Because tobacco is one crop that sustains so many rural families and communities in this country, the AAM strongly opposes the President's proposed quadrupling of the tobacco tax -- the only new tax being proposed -- to finance a national health care program. This tax will only serve to wipe out thousands of farms and farming communities that have already been devastated by flood, drought and past tax increases.

Farmers are under siege and are being hit coming and going. Earlier this year, we were hit with an increase in the gas tax which significantly raised the cost of driving our products to market. Now, on top of everything else, the President's plan seeks to add yet another tax to an already overburdened segment of the population.

It is ironic that currently, rural Americans pay a considerably larger portion of their income on excise taxes -- 33% more than urban families -- and yet it is these very people who are being singled out to finance a health care program for the entire nation. Have not rural families and communities been targeted enough? Is it not time to find a more equitable way to solve the health care crisis? The AAM thinks so.

Mr. Chairman, the AAM believes that the President's plan will set the wheels in motion for the long road ahead in the quest for a national health care program. Rural families and communities would like nothing more than to see the light at the end of the tunnel in this journey. However, it cannot come at the expense of their livelihoods, their farms and their local economies. The Congress should adopt a more equitable plan that considers all citizens in all regions of the United States -- not a plan that asks one segment of the population to shoulder the burden for a national program.

Thank you.

Testimony of Mattie Mack, Kentucky Tobacco Grower
Before the
Committee on Ways and Means,
United States House of Representatives
on the Financing Provisions
of the Administration's Health Security Act

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Testimony of Mattie Mack, Kentucky Tobacco Grower
Before the
Committee on Ways and Means,
United States House of Representatives
on the Financing Provisions
of the Administration's Health Security Act

Mr. Chairman and Members of the Committee:

Thank you Mr. Chairman. I am a tobacco farmer from Brandenburg, Kentucky, and I have come here today to share with you my concerns about the proposed tobacco tax to pay for health care reform.

I want to start by telling you what tobacco means to me and my family.

I began farming tobacco back in 1963, when my husband brought me to Kentucky to start our own farm. Over the years, we have built up a 100 acre farm on which we raise cattle, corn, hay and 10,000 pounds of tobacco each year.

Our tobacco crop has been the foundation on which we built our farm and our family. My husband and I raised four children on tobacco. The money from our tobacco crop has paid for their medical care, for their food and for their education.

We have also raised 38 foster children on our farm. The welfare office always sent the "problem children" to us. I discovered that the real problem was that these children did not have anything to do but to get into trouble. So I put them to work on our farm -- they cleaned out the barns, they helped put in the tobacco crop, they hoed the tobacco and they helped top the tobacco. After a long days work, those kids ate a good supper, took a shower and went straight to bed. There was no energy left in them to cause trouble.

My own children and our foster children saved money from tobacco so that they could go to movies or to ball games. I always told those kids: When you spend that money, tell people you earned it from tobacco.

Tobacco is our livelihood.

I am here today because our livelihood is being threatened. I cannot express enough how deeply concerned I am about the President's proposal to increase tobacco taxes to pay for health care reform. Farm families like mine stand to suffer a great deal if this proposal becomes a reality.

I want to tell you that I support the idea of health care reform. When I was young, I studied to be a nurse and worked for a while in the Louisville Children's Hospital. I know first hand that our health care system is in serious need of reform and I congratulate the President for recognizing this fact.

But the President has proposed a 75 cent per pack cigarette tax as the sole tax to pay for health care reform. This proposal asks farmers, like me, to foot the bill for a system that benefits the entire nation. That is unfair.

It is unfair to tobacco farmers whose hard work already generates $62,000 per acre in state and federal taxes. It is unfair to black farmers, many of whom grow tobacco, and who historically have lost their farms at a faster rate than white farmers. It is unfair to my home state of Kentucky, which stands to lose over 300 million dollars, and it is unfair to the South as a whole, which stands to lose the very foundation of its economy.

The Bible says that you earn your living by the sweat of your brow and I can tell you that farming tobacco makes you sweat. But farmers are accustomed to hard work. We are also accustomed to dealing with the hardships of nature -- we always have to worry about too much rain on our crop, or not enough. But no amount of hard work or resiliency will prepare us for dealing with the man-made hardships that come from Washington. American tobacco farmers cannot survive this threat to our livelihoods.

I want to invite President and Mrs. Clinton and all of the members of this committee down to Kentucky to see the people who are working so hard to make ends meet -- they are doing it with tobacco. I want them to meet tobacco farmers and their families -- face to face -- and to learn just how much our crop means to us, and to the South. If they understood that, I am certain they would not insist on this unfair tobacco tax.

The simple fact is that tobacco farmers cannot afford to pay for health care reform and we should not have to. All Americans stand to benefit from changes in our health care system and all Americans should pay for it. This is the American way and it is the fair way.

I serve on the credit committee of the Community Farm Alliance which issues small loans to farmers in need. I can tell you two things from that experience. There are a lot of farmers out there in rural America who are already fighting day after day to hold on to their land. There will not be enough money in the coffers of the Community Farm Alliance, or in the coffers of any other farm support groups, to help those farmers survive if this unfair tax becomes a reality.

On behalf of my family and the many tobacco farmers who will never get the opportunity to come here and talk to you, I ask you to work with the President to develop a health care program that is fair to all Americans, including tobacco farmers, tobacco plant workers and southern communities. A tobacco tax increase does not meet this test.

Thank you.

Testimony of Linda F. Golodner
President, National Consumers League
Committee on Ways and Means
U.S. House of Representatives

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National Consumers League Statement
Committee on Ways and Means, U. S. House of Representatives
H. R. 3600, The Health Security Act

Mr. Chairman and members of the Committee, over 94 years ago, the National Consumers League (NCL) was founded by a group of Americans concerned about protecting the rights of citizens in the workplace and marketplace. Since that time, NCL has grown into a national organization representing thousands of consumer activists across the nation on issues ranging from state and federal consumer protection legislation to fair labor standards for child labor.

Over our 94 year history, NCL members have often voiced their concern about the failure of our health care system to adequately protect all Americans. Despite the passage of Medicare and Medicaid legislation in the mid-1960's, over 37 million Americans have no health insurance protection. Millions more have limited protection, and virtually all Americans live in fear of losing their jobs and the vital health insurance benefits that go with employment.

Even for those who do have high quality health insurance protection, the costs of those policies have been skyrocketing. The $752 billion spent on health care in 1991 was equivalent to approximately $7,860 for each of the 96 million American households or over half the annual income of more than 24 percent of all households.

Moreover, the distribution of health care spending among households is grossly unfair. According to a recent study by the Economic Policy Institute, low-income families pay over twice the share of income for health care as do high-income families. Out-of-pocket spending is particularly regressive with low-income families spending nearly nine times the level of high-income families as a share of income.

The National Consumers League Board of Directors established a set of principles to guide our policy on health care reform. These principles address the problems described above as well as the need for greater consumer involvement in the health care decision-making process. Health care reform, whatever specific form it takes, must create a system that assures access to affordable, quality care for all Americans and controls cost. While medical care itself is inevitably technical and therefore must be left to physicians and other qualified health care providers, it is important that consumers be genuine participants in their own care and have a significant role in shaping public policies which affect them and their families. The principles that the National Consumers League sets forth are:

- Prevention and the promotion of health lifestyles must be essential components of health care reform.

- Primary health care should be the foundation of the system. Consumers should be able to receive care from a full range of quality providers, including physicians, nurses, pharmacists, dentists, nutritionists, and mental health workers.

- Attention must be given to populations with special needs such as children, pregnant women, the poor, people with HIV and AIDS, the elderly, people with mental and physical disabilities, and non-English speakers.

- There must be a strong emphasis on the development of physician practice guidelines and nursing research based on health outcomes.

- A network of care should be available to persons living in underserved urban and rural areas to coordinate an often fragmented health delivery system, often complicated by inadequate communications and transportation systems.

- Long-term care must be an essential feature of reform. It should be integrated with acute health care services and should be available in the most appropriate setting.

- Health care financing must be progressive and based on a uniform payment system with community rating. Deductibles, co-insurance and copayments are obstacles to full access to the health care system and should be eliminated or at least held to a minimum.

- Programs should set specific prices for health care services, and providers should be prohibited from requiring consumers to pay additional fees.

- Consumers must have access to comprehensive and accurate information and education about the range and implications of available health care options.

- Managed-care systems, including Health Maintenance Organizations, should be a choice for consumers and participation should be on a voluntary basis.

- The new health care system should require a safe environment in workplaces, the proper disposal of industrially-related toxics, and research on occupational health hazards. Workplaces that are dangerous or expose employees to long term health risks impose substantial burdens on the system.

- Dissemination of new medical technologies without adequate assessment of effectiveness re requirements for training and teaching is harmful to the quality of medical care and greatly adds to the cost.

- Advertising of prescription medications should be carefully monitored and regulated.

- Consumers must have the right to an appeals process to contest unfair administrative or medical decisions.

- Patients should have unrestricted access to their medical records and they should have a right to correct inaccurate information and to control dissemination of confidential information.

- Consumers must be represented in either an administrative, advisory, or advocacy capacity at every level and in every sector of health care.

The Health Security Act

The recent introduction of President Clinton's Health Security Act is a major step forward in the process leading to comprehensive health care reform. The President's commitment to universal access to health insurance for all Americans is a critical component of reform. Although the employer mandate included in the plan will be controversial, NCL strongly supports this method of assuring health insurance coverage to the millions of Americans who today are uninsured.

In addition, we commend the President for provisions of the plan designed to slow the dramatic increases in health care costs that have plagued the current system for the past two decades. Although many insurance companies will oppose these provisions, we view limits on increases in health insurance premiums as a core element of the Clinton plan. The insurance industry has been a part of the health care cost crisis for too long, now they can become part of the solution.

The President's plan also recognizes the importance of greater consumer involvement in the health care decision-making process. The establishment of consumer advisory boards to assist the health alliances in determining which health plans best meet the needs of consumers can be invaluable in assuring consumers access to the best possible plans.

However, we would caution that such advisory boards must have the means to be effective advocates for consumers. Too often such boards are set up as "window-dressing" with no real access to information essential to making informed decisions. NCL would urge that provision be made for these boards to have sufficient resources -- both in terms of staff and financial assistance -- to play a major role in working with health care alliances.

Financing Health Care Reform

As the EPI study points out, the current health care system is highly regressive. NCL believes that reforming our payment system to make it more fair to low-and middle-income consumers is an important element of health care reform. In the area of financing, we believe the Clinton health care plan can be improved.

First, the plan relies very heavily upon flat premiums to be paid by employers and employees for much of the funding. These premiums would remain the same for an employee making $15,000 and for the employee making $150,000. If the cost of an average policy in the U.S. is $4,000, the family making $15,000 would pay 27 percent of its income for health care, and the family making $150,000 would pay less than 3 percent of its income for health care. Although the plan does include subsidies for the very poor, the inequities of premium financing cannot be fully addressed in this manner.

In addition, the Clinton plan calls for a dramatic increase in tobacco excise taxes to pay for part of the program. Excise taxes -- whether broad based value added taxes or narrow tobacco taxes are highly regressive. According to studies done by Citizens for Tax Justice, an excise tax on tobacco takes a 72 times greater share of income from a family of four in the lowest 20 percent of the income distribution than it does from a similar family in the highest one percent.

Taken together, the Health Security Act's reliance on flat premiums and excise taxes may do very little to improve the regressiveness of the current health care system. We urge the committee to look closely at the distribution of health care costs under the Clinton plan and find ways to make the program's financing mechanisms more equitable for low- and middle-income consumers.

Conclusion

The National Consumers League strongly supports many elements of the Health Security Act. Provisions of the plan designed to assure universal access and cost containment are critical to successful reform of the current system. Our members and all health care consumers have a tremendous stake in reform and will work actively to assure that these provisions are included in the final law.

However, we also believe that consumers must be encouraged to play an effective role in the new health care system and that the bill can be strengthened to assure their participation as full partners with the health alliances. In addition, we urge the Ways and Means Committee to find ways to improve the progressivity of the Clinton plan.

FINANCING THE CLINTON
HEALTH CARE PROPOSAL

TESTIMONY

of

EUGENE GLOVER
PRESIDENT, NATIONAL COUNCIL OF SENIOR CITIZENS

before the

COMMITTEE on WAYS and MEANS

November 18, 1993

Introduction

Good afternoon, Mr. Chairman, Members of the Committee. It is a pleasure to be here today. My name is Eugene Glover. I am the President of the National Council of Senior Citizens (NCSC). NCSC represents over five million older Americans nationwide through our 5,000 affiliated clubs and State Councils. The National Council was founded in 1961 to lead the fight for Medicare. After its enactment—an event we considered to be the first step in the creation of a universal national health care system—the Council continued its emphasis on health reform. At the same time, we expanded our commitment to programs for older workers, transportation, housing, civil rights and Social Security protections. We do this not just for today's retirees, but also for current workers who will one day enjoy the fruits of their labor.

Support for Clinton Health Plan

Before I begin, I would like to take a moment to let the Committee know what position the National Council has taken with regard to the overall direction of health care reform. As you may recall from my previous appearances before your Committee, Mr. Chairman, the National Council of Senior Citizens is a single-payer organization and supports the bills introduced by Congressman Jim McDermott (D-Wash.) and Senator Paul Wellstone (D-Minn.). NCSC believes that ultimately the United States will have to move to a single-payer system in order to solve the many fundamental problems we are facing with our health care system. This being said, we have carefully examined the Clinton health care program and have found good reasons to support it.

There are many reasons for seniors to support the Clinton health proposal. Universal coverage by 1998 is a key reason the National Council supports this legislation. No other health care proposal, other than single-payer, comes close to meeting this important goal.

Strong cost containment: if we as a nation cannot hold down the spiraling growth in private health care expenditures, we will never be able to control Medicare and Medicaid costs—leaving us unable to achieve any meaningful, long-term deficit reduction.

Medicare is strengthened with the addition of a prescription drug benefit for which out-of-pocket costs are capped. Balance billing is finally eliminated under Medicare. The National Council fought for many years, both here in Congress and in State Houses across the nation, to have this onerous and regressive cost-sharing provision removed from the Medicare program.

Early retirees are covered. While some in Congress may see this as a boon to those corporations which now provide retiree health benefits, it is actually a necessary component for reaching universal coverage. Of the ten million early retirees, only about forty percent have any business-provided health insurance. Only about four percent of all U.S. companies provide retiree health benefits. This means 6 million older Americans are either buying individual insurance policies themselves or going without such protection. The early retiree benefit is fundamentally not a business benefit, but a help to retired workers. Many of these people were forced out of the workplace. They would have continued working had their employer not told them it was either the pension check or the unemployment line.

This President has taken leadership to acknowledge that chronic care needs are as important as acute care. The creation of a long-term home and community-based care program for citizens of all ages takes the crucial first step of meeting chronic care needs that increase with age.

This commitment to the seniors of America cannot be found in the Cooper/Breaux bill. It cannot be found in the Michel/Lott bill. It cannot be found in Gramm/Armey or in Chafee. These pieces of legislation only take from Medicare and offer nothing in exchange.

The Clinton bill meets our basic principles. The President's commitment cannot be in doubt. For this and the reasons stated above, the National Council has endorsed the Clinton bill as the best starting point for reform and will work with you, your staff, this Committee and the Congress as a whole to enact a final reform package.

There are some improvements NCSC would like to make to the bill as drafted. NCSC believes that Medicare should be absorbed into the health alliance system within five years of the creation of the last health alliance. During the transition period, Medicare beneficiaries should have the option of staying in Medicare or moving into the health alliance system during the open enrollment periods without higher costs. We are concerned that the different benefit levels offered to the elderly through Medicare would result in the creation of a two-tier system of medicine. We are also concerned about the ability of Medicare to absorb another $124 billion in cuts. All premiums in the health alliance system must be community rated without regard to age. Medicare should then pay the eighty percent share of premium costs, as Medicaid will, for its beneficiary population. Without these protections, Congress runs the risk of requiring someone over 65 to pay over fifty percent of their health premium costs, while a high-risk younger person only has to pay twenty percent. In fairness, since the Clinton program provides protections to those at 150 percent of poverty or below, the Qualified Medicare Beneficiary (QMB) program should be raised from its current levels to 150 percent of poverty as well. Finally, we would like to see a federal minimum benefit level established for the long-term home and community-based care program in order to establish a uniform system throughout the states. The eligibility requirement should also be reduced from three activities of daily living to two at a date specific point.

While NCSC is going to be pushing for these "improvements" to the Clinton health plan, I must emphasize again that the National Council supports the overall direction of the Administration. We believe the Clinton bill is the vehicle to take us into the 21st Century.

Opposition to Other Approaches

NCSC is unalterably opposed to the other health proposals currently before Congress. It is our belief that these programs only hurt the elderly by reducing Medicare spending without offering beneficiaries needed health care protections.

NCSC is currently engaged in educating its membership about the dangers these different proposals present. We urge any Members of Congress and the Senate who may have co-sponsored the Cooper/Breaux, Michael/Lott, Chafee, or Gramm/Armey bills to remove their names from the list of co-sponsors. This is an issue the National Council and its members take very seriously and will be watching very closely.

Financing the Clinton Health Program

Mr Chairman, everyone here knows that the most difficult part of putting a national health care program together is the financing. In developing this program, the Administration had to make many difficult decisions. We are grateful that this President had the foresight and courage to live up to his promises by putting together a health reform package that meets the needs of the nation and is fully funded.

Financing the Clinton Health Program - Progressivity

Mr. Chairman, the National Council has always believed that any health reform effort must be financed in a fair and progressive manner. NCSC agrees with the studies that have been previously presented to you that income taxes followed by premiums are the most progressive methods of financing health care. While we would prefer to see the income tax system used to help finance the Clinton health proposal, NCSC supports the Administration's use of the wage-based premium. We are somewhat concerned, however, about the use of a potentially unstable revenue source—the proposed tobacco tax—as a major component of the financing package. NCSC believes that excise taxes are regressive and that their use should be kept to a minimum if they cannot be eliminated altogether.

Financing the Clinton Health Program - Medicare

The National Council of Senior Citizens is concerned about the use of Medicare growth reductions to help finance the Clinton health plan. As I mentioned earlier, the National Council is worried about the ability of Medicare to absorb additional reductions at this time. Our concern, which is shared by others, is that Medicare reimbursement levels will fall to a point where the financial incentives to providers will be such that the providers will spend less time with their Medicare patients, or perform more procedures in order to increase volume. Our members are also worried about the possibility that reimbursement differences could lead to providers turning Medicare beneficiaries away altogether.

It is important to remember that Medicare currently has a higher level of cost control than any private section insurance program. And it is working. I do not need to remind this Committee that when you marked up the Omnibus Reconciliation Act of 1990 and included specific numbers for the Part B premium, many of you were skeptical that beneficiaries would be paying twenty-five percent of program costs in the out years. However, the opposite is true. The cost-containment mechanisms have been so effective that Part B premiums currently cover about twenty-eight percent of program costs, not twenty-five percent. Medicare costs have increased more slowly than anticipated only three years ago.

NCSC is also disturbed by the proposed addition of a co-payment for the home health care and clinical laboratory benefits. The addition of a co-payment is no less than a benefit reduction—a reduction proposed at the same time others would be seeing their benefits increase within the basic alliance plans.

While the National Council represents a working-class constituency, we remain opposed (as we have been for the past twelve years) to asking wealthier beneficiaries to pay a higher Part B premium. NCSC's primary objection, among others, is that the wealthy over 65 are being asked to pay seventy-five percent of premium costs, the wealthy early retiree is being asked to pay one hundred percent of premiums, while the wealthy employed person would only have to pay the same twenty percent middle-income people would pay. It is a fundamental unfairness to ask people to pay different amounts simply because of their age.

Financing the Clinton Health Plan - Cost Sharing

Mr. Chairman, after twenty-five years' experience with the Medicare program, NCSC can safely say that cost sharing is simply an inhibitor to health care access rather than a way of eliminating unnecessary care or of forcing consumers to be aware of the costs involved. If cost sharing is included in the health plan, then those who can afford it will buy supplemental insurance to cover their potential liability. Those who cannot will simply wait, hope to get better, and finally see a physician after their illness has gotten worse, using even more resources than they would have originally. We urge this Committee and the Congress to reexamine the cost-sharing issue from the viewpoint of the consumer rather than from the ivory tower of the health economist. It is providers who determine the supply and even a well-educated consumer is going to be more concerned about his/her health or the health of his/her family to worry about the price. Imposing cost sharing will not change that behavior.

Conclusion

Mr. Chairman, the American people want a health plan that is fairly and progressively financed. While an income tax-based system would be preferable, the wage-based premium will meet their needs. They want a plan that limits cost sharing so they can receive care when its needed. They want a plan that depends on reliable funding sources rather than unstable taxes. And, they want a plan that does not turn the primary health insurance program for the elderly—Medicare—into a poorly funded, second-class system of medicine.

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Testimony of
Michael Podhorzer
Health Care Campaign Director for Citizen Action
before the
Committee on Ways and Means
U. S. House of Representatives
November 16, 1993

Mr. Chairman and members of the Committee, I want to thank you on behalf of Citizen Action and our three million members for this opportunity to testify today. I am particularly appreciative for the ability to share with you our views on health care financing, which is both the major cause of today's health care crisis and the fundamental key to successful reform.

The current U.S. health care financing system can best be described as fragmented, inefficient, regressive, uncontrolled and increasingly unaffordable. This Committee is all too well aware of the problems created by this financing system: cost-shifting from public to private payers and from private payers to other private payers; the growth in the number of uninsured and inadequately insured due to the inability to afford cost increases; the overburdening of government, business and family budgets; and an increase in individual cost-sharing. Clearly, this non-system is no foundation upon which to build an efficient, effective and universal system where health care is a right for all Americans.

President Clinton has drawn the bottom line: a health care system in which all Americans have access to comprehensive benefits and enforceable cost controls. That being said, Citizen Action believes that much can be done to President Clinton's plan to ensure that these goals are met and that we create a health care system that is financed progressively, based on ability to pay.

Citizen Action has been and remains a strong supporter of H.R. 1200, the American Health Security Act. While the specific mechanisms in this bill are being revised to replace revenues lost due to passage of the budget bill, the financing principles of H.R. 1200 are sound and essential to a well-functioning health care system. In my testimony, I would like to outline those principles and discuss how other proposals do, or do not, meet them.

Before doing so, however, I want to express Citizen Action's strong opposition to recently-made proposals, such as the Penny-Kasich bill and entitlement caps, which could make health care reform impossible to enact. Our members and the American public have been encouraged over the past several years by findings that comprehensive reform can be financed by curbing inefficient health care spending. Proponents of measures tc put reduced spending to uses besides health care reform must tell the American public that targeted revenues are no longer available and that, therefore, long-awaited health care reform will be even more long-awaited. Or, they must develop an alternative means

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of financing universal access to care at least as comprehensive as the President has proposed. Citizen Action urges this Committee to put health care savings to their appropriate use -- reform of the health care system.

Citizen Action believes that health care financing mechanisms should be evaluated by four criteria:

- Fairness. By fairness, we mean that payments must be based on ability to pay. Those who can afford to pay more should pay more than those who cannot. Furthermore, the cost of access to care should not depend on employment, health status or place of residence.

- Efficiency. Other things being equal, health care financing should be simple and cost as little as possible to implement. Furthermore, health care financing should do as little as possible to distort other decisions in the economy.

- Remove barriers that keep patients from getting the best care. How we pay for health care affects who gets care, what care they get, and the general level of quality of care available to them.

- Adequacy and Stability of Funding. The sources of funding should be as stable as possible to ensure certainty of adequate funding for health care now, and in the future.

The major health care reform approaches being considered by Congress now employ some combination of six basic financing mechanisms: premiums, cost sharing, excise taxes, changes in the tax treatment of employer provided health benefits, payroll taxes, and income taxes. We will analyze each of these approaches in terms of our criteria in turn.

I. Premiums. All of the major health care reform approaches besides HR 1200 continue to rely premiums as the primary source of financing. Unfortunately, premiums are the most regressive way to finance health care. Premiums violate the principle of fairness in several ways.

First, insurance costs the same amount whether you make $15,000 or $150,000. If the cost of an average policy is $4,000, the family making $15,000 pays 27 percent of their income for health insurance while the family making $150,000 pays less than 3 percent of their income. Most of the plans attempt to soften this fundamental injustice by providing some level of subsidies to the poor and near poor. Even where such subsidies are adequately funded, the essential elements of a head tax remain for those families not poor enough to qualify for subsidies, and for top earners in the subsidized categories who would receive only a small subsidy. Consider this example. A family of four making

$29,000 makes more than twice the current level of poverty. For them, the $4,000 premium would amount to 14 percent of their income. The Clinton plan provides the greatest assurance of subsidy for the poor of the competing premium based plans, although the entitlement cap should be cause for considerable anxiety. The other premium plans offer less generous subsidies, and do not go as far to make sure they are fully funded.

Second, premium based plans that do not mandate a comprehensive benefit package are very likely to impose a kind of sick tax. To the extent that healthy people are allowed and encouraged to purchase bare bones policies, those who need more comprehensive benefits will pay more. In 1987, the 50 percent of Americans who needed health care the least accounted for only 3 percent of all health care spending, while the ten percent who needed the most health care accounted for 72 percent of health spending. Of the premium based plans, the Clinton plan is really the only one that attempts to avoid this injustice. The Clinton plan accomplishes this by mandating a comprehensive benefit package and cost sharing arrangements that limit the ability of insurance companies to offer policies that attract only healthy individuals. At the other extreme are proposals that seek to reduce the number of Americans who are uninsured through incentives like medical IRAs to buy catastrophic bare bones policies. These policies will siphon off healthy individuals. Under an individual mandate, low income individuals and families might only be able to afford these policies.

Third, the premium based financing systems in all of the major bills perpetuate some, or most forms of discrimination built into the current system. All of the premium based plans except the President's perpetuate the link between employment and access to health insurance. By leaving to the employer most, if not all, of the decisions about their employees' choices, these proposals continue one of the least popular aspects of the current health care system -- the probability that if you lose your job, or if you change your job, your health insurance options will change. The Clinton plan nearly eliminates this problem by providing most people in the same health alliance region the same choice of plans, at least up to the weighted average premium.

All of the premium based plans will do little to address the fundamentally unequal access to health care based on place of residence. To a great extent, under the Clinton plan, the quality of health care available to you is a function of the resources available to the health alliances. This creates three concerns. First, we are concerned that the special targeted programs in the President's bill do not go far enough to ensure the infusion of resources into medically underserved areas. Second, we are concerned that not enough is done to cushion the impact of declining regional economic conditions. When a health alliance region is economically hard hit, revenues to the health alliance could fall precipitously as workers are laid off. And third, we are concerned that businesses and workers in low-wage regions, and regions with high unemployment, will face higher premiums than those in more prosperous areas of the country. It must be noted, however, that the President's targeted programs and limited nationally distributed subsidies go much further to attenuate these regional injustices than any of the other premium based plans.

Premiums also violate the principle of efficiency in several ways. First, they are, by definition, more costly to collect than taxes. Whether through health alliances or traditional insurance companies, a free-standing enormous bureaucracy is required. There is a substantial body of evidence shows that privately financed health systems are far more costly to administer than public ones. For example, a Citizens Fund analysis of data submitted by the commercial insurance industry in 1991, found that it cost commercial insurers 36.4 cents to deliver a dollar of benefits. This compares with 2.1 cents for Medicare and 0.9 cents for the Canadian national system.

Second, all of the premium based systems distort economic decision making and invite gaming of the system. Premium based systems discourage the employment of low wage workers since, as discussed above, they are essentially head taxes on each worker hired whether the worker adds $20,000 value to the company or $200,000. The premium based plans also distort hiring practices by making it more costly to hire those with families than those without. All of the premium based systems except for the Administration's will continue job lock to a certain extent. This would be true even if the preexisting condition problem were solved since the decision about what health care choices are available to you will still be made by your employer. All of the premium based systems will invite some form of economically wasteful gaming. For example, the President's plan invites companies to spin off their low wage jobs to qualify for subsidies. Perversely, in the first few years of the plan, private employers receive greater protection than public employers. Thus, in certain instances that government will be subsidizing the health care provided private school teachers but not the health insurance of public school teachers.

Many of the premium based proposals do little, if anything, to provide health care consumers with the proper incentives. Proposals with an individual mandate and without a comprehensive benefit package may, at best, increase the number of people who are technically insured. But since they will only be able to afford catastrophic bare bones packages, with high deductibles, they will still be discouraged from seeking primary and preventive services and end up overburdening the nation's emergency rooms. Of course, those proposals which do not even provide an individual mandate will perpetuate a system in which too many people cannot afford to be rational health care consumers.

Premiums are a moderately stable and certain funding source. The President's proposal is the most stable of the premium-based plans. The other plans will be extremely sensitive to economic conditions as companies, and individuals drop their insurance coverage as they lose their jobs or have their hours cut back.

II. Cost sharing. While proponents of cost-sharing argue that it is essential as a tool to reduce unnecessary utilization, the evidence strongly suggests that cost-sharing will have an equal effect on necessary and unnecessary utilization but will have an unequal effect by discouraging lower income persons from obtaining care. The authors of nearly all current health care proposals recognize the financial obstacle created by cost-sharing through provisions which exempt preventive services -- those services deemed as important -- from cost-sharing obligations. As important as preventive services are, consumers may well wonder why other medical care -- such as prescription drugs to reduce the threat of stroke -- do not deserve equal treatment.

More importantly in terms of a financing discussion, cost-sharing on provider-ordered treatment or items cannot be seen as a means to reduce unnecessary utilization but rather as a means of raising revenues. In that regard, cost-sharing should be viewed as a form of a "sick tax" -- a point of service levy on persons who need prescription drugs, hospital treatment, or other services deemed necessary for them by providers.

Again, there are a range of approaches to this issue among the various proposals. H.R. 1200 eliminates cost-sharing requirements, raising revenues upfront and placing utilization constraints where they belong -- on providers. The Clinton proposal seeks to address the unfairness of cost-sharing through an annual stop loss, ($1500 per individual, $3000 per family and $1000 for prescription drugs). While better than current practice and, as I will mention, the other alternatives, these stop losses are not related to family income and therefore, well-intentioned as they may be, can impose significant regressive burdens on families. (Again, the family with $24,000 income would have to expend over 10 percent -- without factoring in premiums -- before it received any protection.)

Proposals such as H.R. 3080 and H.R. 3222, on the other hand, either encourage high cost-sharing through a catastrophic coverage option with a $3600 deductible or fail to specify any particular limits. These are the most unacceptable proposals.

III. Excise taxes. Excise taxes -- whether broad based value added taxes or narrow tobacco taxes are extremely regressive, costing those with the least the greatest share of their income. Citizens for Tax Justice has produced a number of studies of such taxes. Among the findings: A national sales tax would cost those in the bottom twenty percent of America more than five times the share of their income that it would cost those in the top ten percent. Excise taxes on tobacco take a 72 times greater share of a family of four's income in the lowest 20 percent of the income distribution as they do a family of four's income in the highest one percent. Excise taxes on alcoholic beverages take a nine times greater share of a family of four's income in the lowest 20 percent of the income distribution as they do a family of four's income in the top one percent.

Narrow taxes also fail the test of adequacy and certainty. Health care funding should not depend on revenues raised by a tobacco tax. It is instructive to realize that the revenue goals for the Administration's tobacco tax could be more fairly, efficiently and dependably met by less than a one percent payroll tax.

IV. Changes in the tax treatment of employer provided health benefits. A number of the plans propose to raise revenues by changing the tax treatment of employer provided health benefits. We feel that this should be labeled for what it is: a tax hike on the middle class. We are disturbed about the largest effect will be place an unfair burden on workers who negotiated for health benefits instead of wages to subsidize the health care of the uninsured.

Furthermore, medical IRA plans would provide greater assistance to the wealthy than to the middle class. This would occur because the value of tax deductibility is much greater in higher income tax brackets than at lower income tax brackets.

V. Payroll taxes. Payroll taxes can be an element in a fair financing package. For this to be the case two conditions must be met. First, the payroll tax must not be capped -- in other words, it should be the set at the same percentage of earnings if you make $15,000 or $150,000. Second, it must be part of a larger package that also taxes unearned income equally. Payroll taxes that do not do this are regressive, and distort economic decisions by making investment in capital more attractive relative to investments in jobs. HR 1200 is the only proposal to rely on payroll taxes. The payroll tax in HR 1200 meets these conditions.

Payroll taxes completely break the link between employment and access to health care.

VI. Income taxes. Income taxes are the most progressive mechanism available to finance health care. Earlier this year, Citizen Action and Citizens for Tax Justice analyzed the distributive impacts of HR 1200. This is what we found:

Distributive Impacts of the American Health Security Act (AHSA) Family of Four, As if Plan Implemented in 1992

	Lowest Fifth	Second Fifth	Third Fifth	Fourth Fifth	Next 15 %	Top 5 %
Average Income	$14,100	$28,900	$42,900	$58,600	$86,600	$294,200

Changes in Average Health Spending						
Current health spending[a]	$1,200	$1,900	$2,220	$2,450	$2,840	$4,020
AHSA health spending[b]	$130	$240	$360	$440	$520	$1,010
AHSA savings (Current health spending minus AHSA health spending)	$1,070	$1,660	$1,860	$2,010	$2,320	$3,010
Changes in income tax/premium paid	$0	$135	$285	$465	$1,335	$11,840
Average Net Benefit (Health spending savings minus increased income taxes.)	$1,070	$1,525	$1,575	$1,545	$985	-$8,830

(a) Out-of-pocket payments plus health insurance premiums. Employer share of health insurance premium not included. Source is Consumer Expenditure Survey. Including out-of-pocket payments for health insurance premiums.
(b) Continued out-of-pocket payments

Sources: Calculations by Citizens for Tax Justice
Date: November 15, 1993

In conclusion, we find that the fairest and most efficient way to finance comprehensive health care reform that provides health security for all Americans is the American Health Securty Act. Among premium based systems, the Clinton Administration proposal distinguishes itself for its commitment to health security, and for its softening of some of the worst aspects of a fundamentally regressive financing system. The other proposals that have been introduced in the House of Representatives to not provide real health security, and will place an unfair burden on most Americans.

Rebuttal to the Coalition on Smoking OR Health

INCREASING THE CIGARETTE EXCISE TAX IS UNJUSTIFIED -- SMOKERS MORE THAN PAY THEIR OWN WAY

The Coalition on Smoking OR Health (the Coalition) continues to insist that a 75 cents-per-pack cigarette excise tax increase is justified because smokers supposedly impose significant "social costs" on the rest of society. The Coalition's argument is incorrect.

- **President Clinton has stated that his sole purpose in proposing the cigarette excise tax increase is solely to help finance his health care program -- not to reduce smoking.** At his press conference in November 1993 he stated: "I didn't want to raise money from anybody to do anything other than pay for the health care program, although I think higher tobacco taxes [would] discourage use and that's a good thing. But that wasn't what was behind it."

- The Coalition relies on figures supplied by the Office of Technology Assessment (OTA). In a May 1993 report, OTA estimated that government at all levels spends **$8.9 billion** annually providing health care to persons with illnesses OTA attributes to smoking. Assuming the validity of this estimate for the sake of discussion, smokers currently pay federal state and local governments $11.7 billion in cigarette excise taxes and another $2 billion in sales taxes annually -- a total of **$13.7 billion** a year.

  Thus, through excise and sales taxes, smokers currently are paying federal, state and local governments $4.8 billion **more** to than OTA claims smokers are costing government. Moreover, OTA estimates that the federal government's share is $6.3 billion. This translates to about **24 cents per pack** -- the current level of the federal cigarette excise tax. With respect to government costs, smokers are paying their own way.

- OTA also estimates that smokers generate $11.9 billion in health care costs that are not borne by the government -- that is, health care costs that are paid by smokers themselves or through private insurance. For purposes of accurate calculation, even this $11.9 billion estimate must be reduced to $7.1 billion in light of the $4.8 billion in excess taxes that smokers pay.

  But there are more fundamental problems with OTA's analysis....

  - OTA never attempted to measure and disaggregate the health care costs paid by smokers. Such costs include insurance premiums and co-payments, deductibles and other costs that are not covered by private insurance. Thus, OTA has no basis to claim that smokers do not pay their own way in the private market. Even the Surgeon General stressed in his 1989 report the paucity of "actuarial data to document that nonsmokers incur fewer health care costs" than smokers.

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- It is inappropriate to view private health insurance premiums paid by others as an "external" cost. The premise of insurance is the spreading and sharing of risk. Because the obligation is reciprocal, insureds are, in effect, one person. The fact that an employer may pay for an employee's health insurance does not make the premiums an external cost. Health insurance premiums paid by employers ultimately are paid by the employees through reduced wages.

- OTA and the Coalition suggest that smoking results in about $47 billion in foregone wages and "lost" productivity. Since these supposed costs are not related to health care, it is inappropriate to consider them in determining whether a proposed federal cigarette tax increase may be justified as a means of financing health care reform.

  - Foregone wages are, by definition, borne by the employee. They cannot be considered costs incurred by anyone else. And "lost" productivity cannot be considered an external cost unless one assumes that society is somehow entitled to the maximum productivity of each of its members, so that anything less than maximum work effort is a societal "loss." But the fact that someone does something other than work does not represent a social or external cost.

  - It has not been established that smokers, as a group, are less productive than nonsmokers. The large majority of studies that report an association between smoking status and increased employee absenteeism acknowledge that socioeconomic, lifestyle and other factors may well account for such reported differences.

In sum, as Professor Dwight R. Lee, Ramsey professor of economics at the University of Georgia, has stated: "If smokers do impose external costs on the rest of society, they already are more than paying their own way. It is unfair, therefore, to make them pay more, and it could not be justified economically."

January 1994

THE FACTS ABOUT TOBACCO TAXES AND JOBS

Recently, the Coalition on Smoking OR Health (the Coalition) released a white paper that alleges only a few tobacco-related jobs will be lost from the proposed $.75 per pack federal excise tax increase. The Coalition misses the mark on a number of its so-called factual representations which this paper addresses. In fact, the U.S. tobacco industry plays a very important role in the national economy. The combination of domestic sales, net investment by tobacco companies and net exports allows the tobacco industry to contribute more than $50 billion a year to the country's gross national product. A 313 percent federal excise tax increase aimed solely at the tobacco industry will have a significant impact on numerous jobs throughout the tobacco community.

- *INDUSTRY LARGER THAN 3 COMPONENTS* - - The tobacco industry is not limited, as the Coalition states, to just growing, manufacturing or wholesaling. In fact, Price Waterhouse estimates that there are approximately 255,000 tobacco-related supplier jobs in the United States who growers and manufacturers contract with to supply their fertilizer, farm implements, industrial machinery, paper, computers, advertising and many other inputs necessary to carry on the business. The Coalition's statement is like suggesting that the automobile industry is confined to one producer of a raw material such as iron ore, a few large manufacturing companies and their distributors. It is widely known that there are thousands of inputs that go into the manufacture of an automobile including rubber, steel, glass, advertising, etc. It is ironic that the Coalition criticizes firms for their ties to the tobacco industry and then chooses to exclude them from their economic and job loss analysis of the tobacco industry.

- At the retail level, tobacco sales are a highly profitable for the tens of thousands of merchants who own and operate small, independent businesses. Tobacco sales in more than 80,000 convenience stores account for more than 26 percent of all product sales - only gasoline sales rank higher. The National Association of Convenience Stores testified before the House Ways and Means Committee on November 19, 1993, that a 75 cents-per-pack cigarette tax increase "means more than lost profits to convenience store operators, it also means lost jobs to American workers." Again, the Coalition chose to exclude lost retail jobs and profits in its economic calculations.

- According to Price Waterhouse, tobacco-related jobs account for almost 3 times (681,000) the jobs calculated by the Coalition (259,000).

• *YES, THERE IS A RIPPLE EFFECT* - - Just as it failed to include suppliers and retailers, the Coalition's economic analysis fails to account for the "ripple effect" of potential job losses that a 75 cents- per-pack cigarette tax would cause. The "ripple" or "multiplier effect" is a standard measurement in economic analysis and is a factor used to account for potential economic dislocations in non-core industries or sectors. For example, jobs in North Carolina or Kentucky's housing industry would be at risk should there be a sharp down turn in the tobacco industry. There are numerous communities throughout the South where the ripple effect would have a severe impact. Price Waterhouse estimates that more than 175,000 indirect jobs would be at risk in North Carolina and Kentucky alone. The Coalition, however, chooses to ignore the jobs lost because of the ripple effect.

• *NET JOB LOSSES* - - The Coalition argues that in the long run, many lost tobacco-related jobs will zero out by jobs created elsewhere. While many economists subscribe to this zero sum theory, it is little solace to individuals who are suddenly out of work. In addition, tobacco-related jobs are among the highest paying ones in the country and even though a job may be found elsewhere over time, it is highly doubtful that one with comparable pay will be immediately available.

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TOBACCO TAXES AS A RELIABLE REVENUE SOURCE

The Coalition on Smoking OR Health has issued a white paper which contends that the federal excise tax on tobacco products is a reliable, steady source of revenue. The Coalition claims that the proposed 75 cents per-pack federal excise tax increase would raise $65 billion in new taxes over the next six years, about $10.5 billion a year. This paper addresses some of the assertions made by the Coalition.

- *CPI EFFECT NOT INCLUDED IN ANALYSIS* - - The Coalition's analysis fails to consider the effect that a 75 cents per-pack increase would have on the Consumer Price Index (CPI). The tobacco component of the CPI is approximately two percent (1.7458 percent) and the proposed tax increase would increase the index to approximately three percent. The one-percent jump in the CPI would, in turn, trigger an equivalent increase in food stamps, social security, government retirement and other federal spending programs indexed to the CPI. At today's spending levels, this increase would require an additional $5.6 billion in mandatory federal outlays.

- *JOB LOSSES NOT ACCOUNTED FOR* - - According to Treasury Secretary Lloyd Bentsen, the proposed tax would reduce tobacco consumption by 12 to 15 percent. The decline would result in substantial manufacturing and sales cutbacks and more importantly, in substantial losses in the tobacco-related jobs (Price Waterhouse estimates that to be approximately 80,000 jobs). The surge in unemployment would require another $2.5 billion spending increase for unemployment benefits and other federal subsistence programs. In addition, the lost sales and unemployment would result in a sharp reduction of federal income tax receipts from both individuals and businesses.

- *ONLY ONE-THIRD NET REVENUES REALIZED* - - A combination of one percent increase in the CPI, increased spending on federal unemployment benefits plus reduced income tax receipts clearly show that the proposed 75 cents per-pack cigarette tax increase would leave the federal government with only $3 billion - less than one-third of the revenues claimed by the Coalition.

• *CONTRABAND CIGARETTES AND OTHER CRIMINAL ACTIVITY* - - The Coalition maintains that Congress should look to Canada and the experience it has had in raising tobacco taxes. While Canadian tobacco tax revenues have risen, the Coalition fails to point out that Canada has also experienced a significant increase in cigarette smuggling, tax evasion, robberies and other criminal activities. According to a leading Canadian economic analysis firm, Lindquist Avey Macdonald Baskerville, Canada has suffered a loss of $1.3 billion in tax revenues due to illegal cigarette sales. The Canadian Department of National Revenue estimates that smuggled tobacco accounted for more than 20 percent of total Canadian consumption in 1992, and in a December 9, 1993, Wall Street Journal report, Quebec's government estimates that more than 50 percent of the cigarettes consumed are smuggled into the province. The Canadian press has reported that Quebec's Revenue Minister has proposed reducing the provincial and federal taxes by $2.00 per pack. In addition to government estimates, Canadian merchants are competing with an rapidly increasing underground market of bootlegged cigarettes. In testimony before the Ways and Means Committee on November 19, 1993, the National Association of Convenience Stores (NACS) stated, " . . . that the underground or bootleg market for cigarettes in Canada had grown so large that it now outpaces, in terms of volume, the entire Canadian convenience store industry's retail sale of cigarettes. While the Coalition contends that smoking in Canada has fallen far greater than that in the U.S., the fact is that there has been no appreciable difference in consumption rates. The fact is that Canadians are smoking more tax-evaded, contraband bootlegged cigarettes.

• *U.S. NOT IMMUNE TO CONTRABAND OR CRIMINAL ACTIVITY* - - The Canadian experience can provide a quick study of the risks presented by raising the cigarette tax. Illegal cigarette sales in Canada are being made out of the back of automobiles, vans and are being done so in prominent areas of major cities. As NACS's stated in its Ways and Means November 19th testimony, " . . . as prominent as Yonge Street in Toronto where office workers know, just like a child knows when the Good Humor man is in the neighborhood, that the tobacco vendor will be around today." The street price for a pack of contraband cigarettes is about $2.50 which is approximately $1.50 less pack than merchants pay for them at wholesale A higher cigarette tax would provide an attractive lure to the unscrupulous who will engage in cigarette counterfeiting and smuggling in order to make a quick buck. If the 75 cent per-pack tax is adopted, the tax differential between U.S. and Mexican produced cigarettes would amount to $14 - $20 per carton - an attractive inducement to cross the 2,000 mile border and smuggle cigarettes.

TOBACCO AGRICULTURAL ISSUES

The Coalition on Smoking OR Health opposes federal programs and the use of any federal funds that encourage and promote the growth of tobacco. It maintains that federal funds would be better spent in support of facilitating the growth of alternative crops, " . . in real support for the country's small farmer."

• *AMERICAN TOBACCO FARMERS PRODUCE THE HIGHEST QUALITY TOBACCO IN THE WORLD* on approximately 138,700 (1992) operating tobacco farms in 23 states (Census of Agriculture). Tobacco is the fifth leading crop in the US in value of production. In 1992 the average farm value per acre was $3,800, topping all other crops.

• *THE TOBACCO PRICE SUPPORT AND MARKETING QUOTA PROGRAM IS A VOLUNTARY PROGRAM* of production controls and price supports, approved every three years by an overwhelming majority vote by producers of most of the tobacco grown in the United States. Participating growers submit to strict production controls in exchange for a guaranteed minimum support price, by grades for their tobacco. Money is borrowed at market interest rates from the Commodity Credit Corporation (CCC) by farmer-owned cooperatives that advance the support price to farmers whose tobacco does not bring in more than the support price. The cooperatives repay the CCC with interest and bear their own administrative and operating costs.

• *TOBACCO FARMERS SUBSIDIZE THEIR OWN PRICE SUPPORT PROGRAM.* Beginning in 1982, to be eligible for program benefits, all tobacco farmers must contribute to an account which was established to ensure the operation of the tobacco price support program at no-net-cost to the taxpayer. Since 1986, all buyers of tobacco also pay one-half of the no-net-cost assessment. Thus, manufacturers must pay more for tobacco than without the existing program. The USDA administers the program, as it does in a comparable way for many other commodities. A portion of salaried office staff in some 600 county offices and at headquarters is devoted to administering the program. If their time was not spent on tobacco, that portion of personnel expenses would be spent otherwise, on some other crop. Tobacco inspection and grading services have been financed through user fees since 1982. While USDA also provides a market news service for sellers and buyers of tobacco, similar news services, research, and federal crop insurance and disaster assistance are provided for practically all agricultural commodities. Given the billions of dollars of revenue that is annually generated by state and federal income and excise taxes on tobacco, tobacco growers are not being subsidized by the US taxpayer.

• *TERMINATING THE FEDERAL TOBACCO PROGRAM WOULD NOT DISCOURAGE USE OF TOBACCO PRODUCTS.* On the contrary, deregulation of domestic tobacco production would result in a substantial expansion of production. Tobacco would be cheaper and production would be uncontrolled, resulting in lesser costs for cigarette manufacturers.

• *THE TOBACCO PROGRAM IS WORKING AS IT SHOULD TO STABILIZE PRODUCTION.* Even though cigarette production has recently hit its highest level in over ten years, US quotas for flue-cured and burley tobacco have been reduced. This has been largely attributed to greater reliance on cheaper imported tobacco due to increasing sales of discounted (i.e., "generic") cigarettes. Also, the anticipated cigarette excise tax increase is acting to constrain domestic purchasers, and abundant world tobacco supplies at much lower prices is impacting export demand. The reduced demand has resulted in a build-up of cooperative inventories, placing downward pressure on the quota formula. Other recent events should act to stabilize the quota. Recent cigarette pricing strategies have halted the growth of discounted cigarettes. In addition, the Budget Reconciliation Act of 1993 imposes penalties on domestic cigarette manufacturers for each pound of imported tobacco used in excess of 25 percent of all tobacco used to manufacture cigarettes in the US, effective January 1, 1994.

• *YOU CANNOT SIMPLY PAY TOBACCO FARMERS TO CONVERT THEIR LAND TO OTHER USES.* In an attempt to drive a wedge to unified industry opposition to the increase in the federal excise tax on cigarettes to fund health care reform, the Coalition and others opposed to tobacco have recently proposed "alternative crop" schemes for tobacco growers by dedicating a portion of the proposed tax increase. Tobacco farms are already well diversified. Most tobacco is gown on farms where the majority of the acreage is devoted to other farm uses. Tobacco, however, contributes the lion's share of gross income on these farms. And there are other problems, such as an inadequate infrastructure to support diversification schemes. As William Sprague, the President of the Kentucky Farm Bureau Federation, stated at a recent Congressional hearing when asked about alternative crops, "But I think if you look at our farming operations in Kentucky, the size of our farms, our culture, our climate, burley tobacco is what we do best . . . and we feel strongly that we should be able to do this without 'big Uncle Sam' putting the clamps on us to literally destroy our industry."

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• *ELIMINATION OF ALLOTMENTS OR QUOTAS WOULD HAVE SEVERE ECONOMIC EFFECTS ON THE SOUTHEAST COMMUNITIES THAT HAVE DEPENDED UPON THE PRODUCTION OF TOBACCO FOR MANY YEARS.* Much of the bank credit system in these areas relies on allotments or quotas as collateral for loans. The value of their farms depends upon the capitalized value of allotments, and, according to the USDA, most persons still living, who were granted historical allotments with the inception of the program, are retired or widowed. A tobacco dollar in these rural communities rolls over many times, making a major contribution to the local economic base in terms of sales of goods and services and to the local tax base.

• *VIRTUALLY ALL EXPORTS OF TOBACCO AND TOBACCO PRODUCTS - VALUED AT OVER $6 BILLION IN 1992 - ARE SOLD WITHOUT ANY US GOVERNMENT FUNDING.* As long as there is a legal domestic and export market for tobacco, US growers have a right to supply that market in competition with foreign producers. Foreign governments are heavily involved in the production of tobacco, through monopoly manufacturing arrangements or subsidization of production. While the USDA had provided export assistance for tobacco through several programs, tobacco has not been a designated commodity for export credit guarantees since 1989. The USDA's Foreign Agricultural Service (FAS) is currently prohibited from using its funds to promote the sale or export of tobacco or tobacco products, barring tobacco from the Market Promotion Program (MPP) and federal export promotion activities available to other US agricultural commodities.

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Rebuttal to the Southern Governors' Association

An Analysis of the Southern Governors' Association Issue Brief "The Impact of Tobacco Taxes in the South"

The Southern Governors Association recently released an SGA Brief entitled, "The Impact of Tobacco Taxes in the South." The SGA Brief purports to analyze the Clinton Administration's proposed 75-cent cigarette tax increase to help finance health care reform. The SGA Brief claims to "evaluate both sides of the debate."

The SGA Brief's review is based on the assumption that a federal tobacco excise tax "may well be inevitable." As a result, the report concludes that U.S. Representative Michael Andrews' (D-TX) tobacco crop conversion proposal "may be worth serious consideration by Southern Governors." Such a declaration in a document alleging to present a nonpartisan, objective analysis is questionable at best.

Overall, the SGA Brief is severely critical of the tobacco industry's arguments against cigarette excise tax increases. SGA staff rely in large part on publications of the anti-smoking lobby, e.g., the Coalition on Smoking OR Health (the Coalition), which are fraught with errors and inaccuracies. In fact, the Coalition presented these arguments in December 1993; point-by-point rebuttals are offered in the *attached* one-page documents. Following are summaries of the SGA staff arguments along with factual rebuttals.

SGA Brief Assertion: According to the estimates put forth by the Coalition and the Office of Technology Assessment (OTA), smokers allegedly "cost" society $68 billion a year, or $2.59 per pack of cigarettes.

Fact: In a May 1993 report, the OTA estimated that all levels of government spend a total of **$8.9 billion** a year to provide health care to persons with illnesses OTA attributes to smoking. Accepting the OTA figure for the sake of argument, a thorough analysis of the OTA estimates would show that smokers **more** than pay their way at the current level of taxation.

SGA Brief Assertion: SGA staff conclude that a $2-per-pack cigarette excise tax increase is warranted because tobacco taxes have not kept pace with inflation.

Fact: From 1980 to early 1994, the federal cigarette tax increased from 8 cents to 24 cents per pack. At the same time, the average state cigarette excise increased from 13.1 cents to 28.7 cents per pack. The Consumer Price Index increased during that period by about 75 percent. Thus, the combined federal/state excise rose from 21.1 cents to 52.7 cents per pack -- a 149 percent increase, or twice the level of inflation.

SGA Brief Assertion: SGA staff claim that a 75-cent cigarette tax increase will result in the loss of only a few jobs.

Fact: The tobacco industry plays an important role in the U.S. economy. Combined, the domestic consumption of tobacco, net investment of the tobacco companies and net exports of tobacco products contribute more than $50 billion annually to the national economy. A mega-tax increase aimed solely at such a large industry will have significant job and payroll effects.

SGA Brief Assertion: SGA staff dispute The Tobacco Institute's (TI) job-loss estimates, saying they might not be as "calamitous" as TI suggests.

Fact: The Tobacco Institute's job-loss projections, based on Price Waterhouse economic data, rely on a standard elasticity model. In fact, the elasticity estimate TI uses is more conservative than the one SGA (and the Coalition) employs. Price Waterhouse has stated that the elasticity figure TI uses is "conservative and widely used in academic and industry projections. [T]he method used to estimate job losses is certainly reasonable and comparable to job loss estimates from other studies."

SGA Brief Assertion: The Brief says that if Kentucky, North Carolina and Virginia were removed from SGA states, the percentage of tobacco-related employment in the remaining SGA states (1.84 percent) would be well below the entire nation (2.07 percent).

Fact: The percentage of tobacco-related jobs in all non-tobacco states is approximately 1.6 percent -- a 30 percent error. Accordingly, there are only five out of the total 17 SGA states with a tobacco-related employment percentage less than the non-tobacco states. The "nonpartisan" Brief appears to go to great lengths to distort the tobacco-related employment picture.

SGA Brief Assertion: Citing government and Coalition reports, SGA staff maintain that tobacco excise taxes are a reliable source of funding and will generate $66 billion in new revenue over the next six years.

Fact: Upon review, a cigarette excise tax increase could lead to much less in revenues than forecasted. Among the factors not accounted for is the impact of a tax increase on the Consumer Price Index, which would be significant.

SGA Brief Assertion: Using a Coalition report, SGA minimizes the economic importance of tobacco growing. The Coalition suggests that "the best be made of a bad situation for growers": use the proceeds of a higher federal cigarette excise tax to subsidize tobacco farmers to switch to other crops (also referred to as "crop conversion").

Fact: Tobacco growing is very important to many rural communities. According to the Census of the Agriculture, there were approximately 138,700 operating tobacco farmers in the United States in 1992. The crop was worth nearly $3 billion, making tobacco the fifth leading crop in value of production. Tobacco provides $3,800 in revenue per acre, the highest of all crops. Furthermore, tobacco growers already grow other crops; they are already among the most diversified of farmers.