

EARMARKING / HEALTH COSTS

THE TOBACCO INSTITUTE

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PAULA JOHNSON DUHAIME
Manager-- Legislative Issues
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July 17, 1986

Mr. Steven D. Gold
Director of Fiscal Studies
National Conference of State
Legislatures
1050-17th Street, Suite 2100
Denver, Colorado 80265

Dear Steve:

Thank you for the opportunity to review the preliminary draft of NCSL's earmarking study. The comments included here are summarized from those made by several members of our staff. I hope they will be of constructive use in completing this potentially valuable report.

The most significant point of concern we see in the draft is definitional. The definition of earmarking: "the designation of certain revenue for specific purposes on a continuing basis," (p.1) and its discussion (pp.6-7) are so broad as to be somewhat of a "non-definition." Such an all-encompassing description of earmarking in this paper has the unfortunate effect of vitiating its impact. It obscures highly significant differences among earmarking philosophies, practices and targets--differences that are not clarified by the subsequent discussion.

A more subtle (but potentially more harmful) effect is that the taking of an excessively wide view in terming nearly all "directed types" of disposition of funds as "earmarking" broadens the constituency for the practice. The more widely--and vaguely--the process of earmarking is described, the more popular and attractive the concept is likely to become.

We would suggest that earmarking be redefined as the allocation of funds for narrow, specific programmatic uses. This would clarify the question of equity and benefits received which does not, we believe, receive in this draft the discussion it merits.

Further, we would urge additional discussion of one frequently advanced justification of earmarking, that the taxpayers are the direct and sole recipients of the benefits

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of the programs for which they are paying. This would necessitate a fuller discussion of user taxes (e.g., gasoline taxes and auto license fees which are used for roads and highways) and a clearer distinction between them and other taxes, especially excise taxes, often earmarked. Sorting out existing earmarking along those lines would highlight the issue of fairness of distribution of tax burdens for general purposes as opposed to directly-linked purposes.

Some additional observations:

- . On p. 3, that earmarking "distorts the budgeting process" is rather vague to be termed "the most damning criticism against earmarking." This phrase should be explained more fully, i.e., that earmarking entails lost opportunity costs when legislators resign their ability to use funds. Or, alternatively, perhaps "most damning" should be reserved to placing a higher priority on a program that may not be justifiable, and assuring its perpetuation.
- . Table 2 would be more valuable if either a) the percentage of the individual program funds that are earmarked were given, or b) if the amounts earmarked were reported.
- . One table that is needed is a detailed listing of earmarked excise taxes, including percentage breakdowns of the funds allocated.
- . On p. 12, "Changes since 1979," since this study focuses on revenue activity up to FY 1984, we would suggest deleting the sentence about the Puget Sound cleanup since it was a 1986 measure. If it is retained, however, we believe that footnote 4 (p.28) illustrates a powerful point and should be included in the body of the report, perhaps in the second dot point on p. 17.
- . In the "Justification for earmarking" (p.16) is mentioned the point that "earmarking makes it possible to require those who receive the benefits of a governmental service to pay for it." It should be noted somewhere that earmarking at the state level does not often make this specification. This possibility is commonly fulfilled only for gasoline and fuel taxes.

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- . In the section "What Difference Does Earmarking Make?" the examples on pp. 18-19 do not seem to logically precede the first sentence on p. 20: "While the foregoing analysis describes the most important consideration in evaluating the impact of earmarking..." The intended message is not clear here.
- . On p.22, as noted above, it is difficult to consider "General Aid to Cities and Counties" as earmarked funds, inasmuch as these funds are used for a large variety of unspecified programs at the local level, the support of which may be changed frequently.
- . Finally, and not surprisingly for a draft document, the paper seems somewhat disorganized, with some of the arguments weakly stated, and many of the points redundant.

In conclusion, let me reiterate that we hope our comments will be helpful to you. Thank you again for requesting our review. If we can be of further assistance, do not hesitate to call.

Sincerely,



Paula J. Duhaime

PJD:gc

cc: William Cannell
Roger Mozingo

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