

September 1, 1993

MEMORANDUM

TO: Cal George
FROM: Susan Stuntz *sm*
RE: 1994 Tax/"Social Costs" Plan

In my comments to you on your draft 1994 plan and budget, I asked if the plan incorporated input from the various consultants -- chiefly Savarese, Forscey, Harris and Ogilvy. When your response on other matters did not address that question, I touched base with each of the consultants to determine their contributions to the plan.

I was quite shocked and extremely disappointed to learn that none of them had been consulted at all, particularly since we specifically discussed at staff meetings the importance of working with the consultants on each of the issues. It is the consultants who are charged with implementing many of these programs. It is, as I have said before, the consultants who can make the issue managers either look very good or very bad.

This plan shows very little creativity or new thinking. Maybe there is nothing new (although we've certainly succeeded in coming up with a number of new ideas this year), although I doubt it and I would feel more confident saying as much if I knew that was a consensus of all of the consultants to whom we pay a lot of money every month. It appears to be simply a condensation of previous plans. Since none of the consultants was involved in the drafting, I have to wonder about the level of time and effort put into it.

In any event, it is being returned to you with a request that you convene the consultants for the brainstorming session that should have been held before this plan was turned in. In the staff meetings I had expressed an interest in attending those meetings -- the other issue managers gave me that opportunity. Since I will be out of the office from Wednesday through Friday of next week, that will not be possible for the tax issue.

Convene the consultants for the brainstorming session and provide me with a plan that reflects the collective thinking of the tax experts by Monday, September 13, please.

Attachment

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TAXES AND "SOCIAL COSTS"

I. Background and Assumptions

Through 1993, the public affairs tax program aggressively reinforced the anti-consumer excise tax environment among tobacco family members and those with whom we have formed alliances. Existing and new relationships were strengthened and expanded. The arguments that excises are regressive and unfair to low- and middle-income families and that a substantial increase would result in the loss of tens of thousands of jobs and other economic hardships were our primary messages.

Government's need to raise revenue remains the underlying reason for proposing consumer excise tax increases. Increasingly "social costs" arguments, emanating from a misapplication of cost/benefit analysis in economic theory, are used to justify such proposals and are being advanced by anti-smoking groups and mainline politicians as a rationale for raising tobacco excises to fund health care reform and for other anti-tobacco measures.

At the federal level, the advent of a new administration, along with the first change in political parties in the executive

branch in twelve years, brought first serious consideration¹ of national health care reform in more than a half century. The industry escaped inclusion of an excise tax increase in the budget early in the year, instead being told that "sin" taxes were being held for health care reform. Soon the prospect of a cigarette excise tax increase in the \$1 to \$2 per pack range was dubbed the "monster" tax and the terms of the debate literally changed almost overnight.

Defeat of the President's economic stimulus package and very close votes on reconciliation, combined with the complexities of health care reform, saw repeated delays from the President's health care reform task force, with the Clinton plan not being released until Fall.

Public affairs expanded and intensified its efforts to counter the threat of a "monster" excise tax for health care reform¹ and created new opportunities to bring the "economic hardship" and "fair taxes" messages to selected members of Congress and key actors in the new administration.¹ At the heart of this strategy was keeping pressure on the new administration from both sides of the political spectrum.

¹ Note: Items footnoted with a "1" indicate items that have been added since last year's plan; items footnoted with a "2" indicate items that have been significantly expanded from last year's plan.

In the states, the trend toward proposing excise hikes to finance state deficits, health care reform and other programs continued. Public affairs strengthened its alliances and other resources in the states to both counter these threats and complement the industry's federal anti-excise tax strategy.

- o Imposed on consumers regardless of their ability to pay, excise taxes are regressive, whether the revenue goes into the general fund or is earmarked for a specific program. A 1987 Congressional Budget Office study, along with other published research,¹ reports tobacco excises are the most regressive of all excise taxes.

- o Analyses of a comprehensive study of the economic impact of the tobacco industry reveal that a \$1 to \$2 increase in the federal cigarette excise tax would result in the loss of tens of thousands of jobs and hundreds of millions of dollars in income and purchasing power. These data are available for both the nation and the 50 states and the District of Columbia.¹

- o Independent published research reports that almost all state and local tax systems are regressive, and many state tax systems have actually become more regressive since 1986.

- o Labor/liberal, tax reform, minority, senior citizen, rural, veterans¹ and industry groups embrace the regressivity issue and

can effectively lobby against proposals to increase excise taxes.² However, while generally business and industry oppose most other taxes as well as excises, labor/liberal and minority groups support programs funded with progressive alternatives to excises. Further, allies representing minority, senior citizen,¹ rural,¹ veterans¹ and female constituencies have commissioned research which demonstrates that excise taxes have a disproportionately negative impact on their memberships. This research bolsters their willingness to take anti-excise tax positions.

o Tobacco excises receive overwhelming public support when subjected to an up or down vote. However, the Consumer Tax Alliance (CTA) has demonstrated that when people are reminded that it is the consumer who pays the cigarette excise tax, they are more likely to oppose this regressive form of taxation.

o Focus group research conducted for the Consumer Tax Alliance shows that middle-class, likely voters believe that the nation's health care system doesn't work and that health care costs are out of control, both of which can be largely attributed to government's failure to act and excessive profiteering by the insurance industry, the legal profession and organized medicine. Moreover, incremental changes in the health care system are seen by many as primarily designed to protect large institutional

interests, while comprehensive reform is viewed as more likely to benefit consumers over the long run.

At the same time, increased tobacco excise taxes are seen as an appropriate means to finance reform.¹

o An analysis of the distributional impact of the current financing of the nation's health care system reveals that while on the whole it is regressive, the public financing components have the effect of reducing the overall regressivity of the system.¹ This analysis provides a useful framework within which to evaluate the administration's health care plan.

o Many labor/liberal groups, state fair tax coalitions, business organizations and public finance experts recognize that cigarette excise taxes are not "user fees," but regressive taxes, and an inadequate revenue source over time to finance meaningful health care reform and other major social programs. This is the most effective argument for generating opposition to increased tobacco excises among those who support comprehensive health care reform.¹

o The battle against consumer excise taxes is more challenging when the proposed excise tax is dedicated to a program which is perceived as "good." The misapplication of "social costs" theory to the use of tobacco compounds this challenge.

o Several economists who have analyzed the HHS program developed to estimate the alleged "social costs" of smoking and new applications of that program¹ at the national and state levels have reported that this model contains major flaws in methodology and logic, many by the program authors' own admission, and cannot produce meaningful data, whether or not one disputes that the cost estimates generated are "social" or public in nature.²

o The Surgeon General's assertions and the Environmental Protection Agency's conclusion that environmental tobacco smoke is a "Group A" carcinogen¹ can be expected to escalate future "social costs" estimates.

o Important to the mission of the Division on the taxes and "social costs" front is its ability to mobilize allies, opinion leaders and experts who can create and sustain a climate conducive to the Federal Relations and State Activities divisions accomplishing their objectives.

II. Objectives

To discourage and reduce reliance on tobacco excise taxes to meet social and economic objectives by demonstrating that consumer excise taxes are regressive, inconsistent with fair taxation and detrimental to the economy.

To respond to anti-smokers' "social costs" arguments.

III. Strategies, Goals and Tactics

Strategy I: Demonstrate that consumer excise taxes are regressive and an unacceptable solution to the problems of reducing deficits and financing government, particularly health care.

Goals and Tactics:

At the federal level:

1. Working through the economists' network and academic research centers, encourage op-ed pieces and letters to the editor in 1994 from consulting economists as a part of a targeted media campaign in 15 to 20 congressional districts and/or states to oppose excise hikes, especially for health care.² Also, encourage presentations on the issue before

congressional committees, national and regional tax policy conferences, and business organizations.

Promote published materials and appearances to the general and specialized media as appropriate. Provide articles, testimony and other published materials to Federal Relations staff and other tobacco family members.

2. Working through the Tobacco Industry Labor Management Committee (TILMC), support labor/liberal and tax reform organizations and their efforts to promote tax fairness and oppose consumer excise taxes. Strengthen and expand existing relationships by encouraging research on fair tax issues, dissemination of research findings, provision of expert testimony to key congressional committees and direct lobbying activities. Specifically, continue to support:

- o Fair tax and progressive economic policy research organizations that conduct analyses of the distributional impact of deficit reduction,¹ tax and other governmental policies.

Encourage specific research which examines the economic and distributional impact of proposed excise tax increases to finance health care reform and, where

appropriate, identifies alternative, more broad-based revenue sources which are deemed "fairer" in nature.

- o Organizations representing the interests of senior citizens, women, Blacks, Hispanics and other labor/liberal groups, and their efforts to oppose any excise tax increase through membership education campaigns, media efforts and grassroots efforts.
- o Agriculture/farm groups, including black farmers, and veterans groups, and their efforts to oppose any excise tax increase through targeted media and public education campaigns, as well as grassroots efforts.

3. Working through the TILMC and consultants, as appropriate, encourage labor/liberal and farm groups to participate in briefings for new Members of Congress and their staffs, as well as selected members of the House Ways and Means Committee, Senate Finance Committee, and tobacco state delegations, utilizing allied group studies demonstrating the impact of consumer excise taxes on working women, African Americans, Hispanics, senior citizens and rural taxpayers.

As needed, support efforts of the coalition of labor/liberal groups to participate in expanded briefings, membership

education campaigns, grassroots and other organized efforts to oppose adoption of a Constitutional amendment to balance the federal budget.

4. Working through the TILMC, and following up on education efforts begun during the 1992 election, support as appropriate and subject to the availability of funds a Consumer Tax Alliance coordinated media/audience response campaign (radio/tv/print ads in combination with an 800 number) in six to 12 Congressional Districts/media markets.¹

The campaign would be designed to remind voters of Members' statements during the 1992 election and to increase the number of Members taking the "no excise tax"/"I'm for the working man and woman" pledge.

5. Working through the TILMC, continue to conduct briefings on economic policy with labor and/or liberal audiences, using video and print materials developed by the TILMC expressly for this program; wherever possible integrate with 3. above.
6. Working through the TILMC, strengthen a program which focuses on key congressional districts and/or states for the purpose of assuring that one or more local affiliates of LMC and other allies are positioned to communicate an anti-excise tax message on a timely basis, either directly or through an effective intermediary.¹ Key members of the

leadership and tax-writing and budget committees, as well as selected first-term, minority caucus and tobacco state members are the primary focus.

7. As a major trade association in the United States, work with and support:

- o Business organizations; e.g., the National Association of Manufacturers, and its efforts to oppose any tax increase;

- o Industry groups; e.g., the Coalition Against Regressive Taxation (CART), and their efforts to oppose all excise taxes.

8. Reinforce the argument that tobacco excise taxes have a negative impact on the tobacco economy and the economy as a whole among the tobacco industry family, organized labor and with federal policy makers. Continue to make available the 1992 edition of the Price Waterhouse study, "The Economic Impact of the Tobacco Industry on the United States Economy," as well as special analyses based on this study. As appropriate, provide to Federal Relations staff for distribution to Members of Congress.

9. Develop and provide targeted excise tax information kits upon request to Federal Relations Division for distribution

to selected Members of Congress and Congressional staff.² Working through National Tobacco Council, also distribute to tobacco family. Support and strengthen efforts of tobacco family groups (e.g., National Tobacco Council) in communicating opposition to consumer excise taxes and other anti-tobacco and economically detrimental regulations.

In the states:

1. Working through the economists' network and as requested by State Activities, encourage op-ed pieces and letters-to-the-editor in 1994 from consulting economists as a part of a targeted media campaign in selected states to oppose excise hikes and support rollbacks. Similarly, as needed, encourage presentations by consulting economists on the excise tax issue before state legislative committees, editorial boards and other suitable forums.

Provide articles, testimony and other published materials to State Activities staff for promotion to appropriate policy makers. Call on TAN and field staff network to support distribution efforts. Promote appearances and presentations to the general and specialized media as appropriate and integrate with federal priorities delineated above.

2. Working through the TILMC, support labor/liberal and tax reform organizations and their efforts to promote tax

fairness and oppose excise taxes in targeted states. Strengthen and expand existing relationships, including the continued promotion of fair tax studies released in 1993 in IN and MI;² support new fair tax studies in 4 additional states as requested by State Activities. Specifically, continue to support and/or encourage:

- o State fair tax coalitions and their member organizations in selected states.² Provide technical assistance and state specific research on tax fairness and revenue alternatives.²
- o Organizations representing the interests of senior citizens, women, Blacks, Hispanics and other minority groups in the states. Wherever possible, integrate their efforts with those of state fair tax coalitions and media/public education campaigns.²
- o Agriculture/farm groups, and their efforts to oppose any state excise tax increase through targeted media and public education campaigns.

Wherever possible, integrate these activities with federal priorities delineated above.²

3. Working through the TILMC and in cooperation with State Activities, continue to aggressively promote allied group studies (and updates) on the excise tax issue through briefings for allies and elected officials in targeted states. Demonstrate the impact of consumer excises on working women, Blacks, Hispanics, senior citizens and rural Americans; wherever possible, integrate with 2. above.²
4. Working through the TILMC and in cooperation with State Activities, continue to conduct briefings on economic policy with labor and/or liberal audiences in targeted states, using video and print materials developed by the TILMC expressly for this program; wherever possible integrate with 2. above.
5. Continue to promote findings in selected state legislative districts of studies on potential retail sales and job losses which would result from given levels of consumer excise increases.² Make findings available to SAD staff and consultants.
6. Reinforce the negative effect of tobacco excise taxes on the tobacco economy and the economy as a whole among the tobacco industry family and with state and local policy makers at the request of SAD. Continue to make available the 1992 edition of the Price Waterhouse study, "The Economic Impact

of the Tobacco Industry on the United States Economy." Further maintain up-to-date information on the economic impact of tobacco on state economies and the potential effect of excise tax increases and other anti-tobacco proposals. As appropriate, provide to State Activities staff for distribution to state policy makers, field staffs and allies. As requested by SAD, prepare and promote economic impact studies on specific states.

Strategy II: Demonstrate that the inadequacies, complexity and skyrocketing costs of the American health care system require comprehensive, long-term reforms, and that incremental "band-aid" approaches to funding of health care reform are both bad public policy and deceptive to health care consumers and providers.² Demonstrate the availability of cost containment measures and alternative, broad-based revenue sources to fund health care.² Wherever appropriate and based on published research, refute "social costs" arguments being used to justify tobacco excise tax increases to finance health care.

Goals and Tactics:

At the federal level:

1. Working with the Tobacco Industry Labor Management Committee (TILMC), support efforts by allies (e.g. Citizen Action and the National Council of Senior Citizens) to enact

comprehensive health care reform as opposed to incremental efforts to address the issue.²

2. Promote media and public attention to health care reform in the Congress and the Administration by encouraging allies to convene and promote a second national strategy conference.² Use this conference to promote research and other public education materials developed soon after the Administration's release of its health care reform plan. Support the issuance and dissemination of a conference report to selected Members of Congress and key officials in the new Administration, as well as to the media and the memberships of the participating organizations.
3. Encourage TILMC allies to testify at appropriate congressional hearings to support both comprehensive health care reform and a combination of universal cost containment measures and broad-based revenue sources as financing mechanisms.² Promote appearances to the media and encourage wide dissemination of testimony, along with follow-up visits to selected Members and their staffs.
4. Support as appropriate research by the Committee for a Responsible Federal Budget which analyzes the potential of the Administration's to achieve its stated cost containment objectives and hold down the growth in federal spending for

health care.² Monitor opportunities for legislative compromise on the health care reform front which rely on cost containment/"global budget" strategies; as appropriate, mobilize support for such approaches among TILMC allies.²

5. Encourage identification and analyses of broad-based and politically viable alternative Federal revenue sources, such as different forms of provider taxes, and strong cost containment measures (to hold provider charges down) as the primary means to fund government health care reform. Encourage allies to support both cost containment and broad-based revenue options and to oppose earmarked consumer excise increases.²

6. Encourage consulting economists, where appropriate, to provide expert testimony before Congressional committees on the fallacies of using "social costs" theory to justify tobacco excise increases to finance health care reform.

In the states:

1. Working through the TILMC, and in consultation with State Activities staff, encourage the state-based affiliates of national allies committed to comprehensive health care reform and fair financing for same to oppose incremental and

piecemeal efforts at the state level which rely in whole or part on regressive excise taxes as a financing mechanism. Efforts in states identified by State Activities will include, as appropriate, analyses of proposed legislation, identification of alternative revenue sources and dissemination of materials from parent organizations at the national level, in addition to aggressive coalition-building efforts and direct lobbying.

2. Encourage identification and analysis of broad-based and politically viable alternative revenue sources, such as different forms of provider taxes, and strong cost containment measures (to hold provider charges down) as the primary means to fund government health care reform at the state level. Encourage allies to support both cost containment and broad-based revenue options and to oppose earmarked consumer excise increases.²

3. Working through the economists' network and in consultation with State Activities staff, encourage economists to develop and place op-eds and letters-to-the-editor which refute "social costs" arguments in selected states in which such arguments are being advanced to support tobacco excise hikes as part of the solution to financing health care reform measures.² Whenever possible, coordinate with federal priorities delineated above.¹

Where appropriate, also encourage consulting economists to provide expert testimony before legislative committees on such matters.

4. Encourage consulting economists to disseminate "social costs" research findings to economic and academic peers to increase skepticism of applying "social costs" theory to smoking by making presentations at economic conferences, as appropriate.

Coordinate with State Activities economic consultant "social costs" briefings of economic and policy staffs of organizations such as American Legislative Exchange Council, National Conference of State Legislators, Council of State Governments and National Governors Association; encourage these groups to address the issue as a serious public policy concern.

IV. Resources

A. Staff

1. Management:

George

2. Division staff:

Issues staff, Production Services, Media Relations, Information Center.

3. Other staff:

Federal Relations and State Activities headquarters and appropriate field staff.

B. Consultants

1. Economists

2. Public Relations Counsel

3. Legislative Counsel

4. Private research firms

5. Insurance consultant

C. Allies

1. Tobacco Industry Labor Management Committee and labor/liberal, women's, seniors', minority and other groups.

2. Coalition Against Regressive Taxation (CART)

3. Veterans Rights Coalition

1 D. Materials

1. Videos
2. Data Cards
3. Economists' tax and "social costs" research
(twelve papers)
4. Topic Brochures
5. Print materials from coalitions and third party
organizations.
6. Earmarking/"user fee" book
7. "Social costs"/The Economics of Smoking book
8. TI-generated publications and studies
9. Journal of Regulation and Social Costs



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Chls

- ① Jim called looking for the 5/13/93 portion of the veterans study bill. You never seen it & asked Ursula to try to find it. When she couldn't he sent a bill for the whole thing (except whatever added charges there will be to do the extra work on other excise taxes) —
It was said to be reflected in August books. You need to sign the original of the bill & return to accounting.
- ② Also sign the bill for the op-ed project & return to accounting.

SMS
9/1/93

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TI17741166

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August 23, 1993

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"The Tobacco Tax Burden on Our
Military Personnel," by
Tollison and Wagner

First half (billed 5/13/93)	\$20,000.00
Second half	<u>20,000.00</u>

TOTAL	\$40,000.00
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APPROVED FOR PAYMENT

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BY _____

BY _____

A/C 1305-7501

DATE _____

AUG 27 1993

JAMES SAVARESE
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August 23, 1993

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"Monster" tax op-ed project using
twenty economists to submit articles
in opposition to using excise taxes
on cigarettes to finance health
care reform - to be submitted to
twenty newspapers in twenty
different states, SECOND HALF

\$30,000.00

+

SMV

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BY _____

A/C 1305-7301

DATE _____

RECORDED

AUG 27 1993

ASS. MGR

IS this
grass root?