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To P. [unclear] [unclear]	From BRUCE HENNES	
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Dept.	Phone #	
Fax #	Fax #	

October 22, 1993

MEMO TO: Anti Cigarette Tax Increase Activi
FROM: Bruce M. Hennes

The President has just announced the fact that he will definitely sock a \$7.50 per carton tax increase on cigarettes to pay for his new health care plan. Below you will find the latest talking points that you may wish to use to combat this terrible, unfair tax that will wreak havoc on the pocketbooks of smokers as well as on jobs and taxes in Ohio.

IT IS THE ECONOMY

"Vapor Scudder Must-Airs":

- A. Cigarette tax will mean lot jobs and a weaker economy.
 - B. Average Americans - not just smokers - will be paying more.
 - C. If health care system is broken, then fix it, don't throw away money.
1. **All Taxpayers Will End Up Paying More:** Average Americans -- not just smokers -- will be forced to pay higher taxes for Clinton Administration health care plan.
 - Cigarette sales are declining; this tax is not a stable source of revenue.
 - A huge excise tax will accelerate that decline.
 - When the costly plan is in place, not enough revenues will be available to pay for it. The government will then either be forced to add billions of dollars to the deficit, or average American taxpayers will be hit with another deficit reduction plan to help make up the difference. Either way taxpayers lose.
 2. **Misleading Numbers; Overstating Tax Revenue:** The Clinton Administration will not get the revenue -- \$15 billion from new federal excise taxes -- it says it will get. In truth, the net revenue will be just \$6.3 billion.
 - As George Mason University economist Dr. Robert Tollison pointed out in a recent study, cigarette prices are part of the federal government's calculations of the Consumer Price Index. That means an increase in federal excise taxes would drive up the index. Because many federal entitlement programs, such as social security, federal pensions and food stamps, are tied to the CPI, the government would lose a large part of the revenue from higher tobacco taxes to cost-of-living adjustments in its entitlement spending.

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- Due to these automatic spending increases, a 75-cent a pack tax will take a \$4.12 billion bite out of projected revenues.
 - Further, when unemployment costs, loss of federal revenues from jobless tobacco workers and changes to income tax tables are considered, the net revenue from the Clinton cigarette tax is not \$15 billion, but just \$6.3 billion. (See attached notes from taxpayer organizations/economists.)
3. Why Not Apply Cost Savings, Rather Than Higher Taxes? President Clinton and Vice President Gore announced earlier this month that they had identified more than \$100 billion in savings through their "reinventing government" campaign.
- If these savings were applied to the health care plan, then no new taxes would be required.
4. States Will See Less Cigarette Tax Revenue: Cigarette excise taxes traditionally have been a source of revenue for state government. With a 75-cent federal tax increase per pack, revenues are projected to decline 12 percent, and with that, state excise tax revenues.
- According to an analysis of Price Waterhouse data, states will lose \$800 million.
 - That is \$800 million that the state's will have to make up through raising other taxes, or by cutting services.
5. Stop Kidding Ourselves. We All Pay In The End: In the end, average Americans will pay for the new health care plan.
- When businesses, large or small, are forced to pay for higher health care costs, the inevitable result is higher prices to consumers for the products and services they buy.
 - Workers will also pay through reduced compensation and, in many cases, layoffs and longer unemployment.
6. Major Cigarette Tax Means Lost Jobs and Paychecks: Jobs and paychecks will be lost with a 12 percent drop in sales, brought on by a 75-cents-a-pack-tax increase.
- 274,000 American jobs will be lost nationwide, including direct and indirect tobacco employment.
 - More than \$8 billion in paychecks will vanish.
7. Smuggling And Crime A Reality: Some Administration officials reportedly said they are encouraged by the Canadian experience with major cigarette taxes. If so, then these officials need to have their heads examined. The facts are that the Canadian government is losing as much as \$1 billion to smuggling, and organized crime and violence on the border are skyrocketing at an alarming rate. The background:

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- Highly organized smuggling campaigns are underway in Canada now. Similar activity could develop along our southern border with a major tax increase in the U.S.
 - The average carton of cigarettes costs in Canada roughly \$50. As a result, cigarette sales have fallen 26 percent. But experts say it isn't consumption that has slowed; rather what has changed is the way people are buying cigarettes. According to news reports, organized crime syndicates are purchasing untaxed Canadian exports and transporting them across the border in small boats or under false floors of cars and trucks. Once back in Canada, the cigarettes are sold tax-free in bars, shopping mall parking lots and schools.
8. **Higher Cigarette Tax Will Not Reduce Youth Smoking:** Yes, a 75-cent-a-pack increase in taxes would reduce consumption by about 11 to 12 percent and prompt many people to quit. Unfortunately, if past experience is any guide, higher taxes do not discourage kids from smoking. The facts:
- A major cigarette tax increase in California, which is routinely used by anti-smoking activists and Clinton Administration officials as an example, did reduce consumption. But it did not do what the anti's hoped in regards to youth smoking. In fact, at a 1992 news conference, a spokesman for the California program said the tax appeared "to have had little effect" on kids, and that their rate of smoking was virtually unchanged.
 - Efforts to keep kids from smoking should include getting at the roots of the problem -- peer influence, parental guidance (or lack thereof) and accessibility. We have several national youth non-smoking programs in place to help reduce kids from smoking. Higher taxes not only don't discourage kids from smoking, they unfairly penalize adults who do choose to smoke.
9. **If Broken, Fix It. Don't Throw Money At Problem:** America's health-care system costs too much and delivers too little. Congress should not buy into the Clinton plan. While there is definitely a problem with the health-care industry, blaming smokers is the wrong diagnosis.
- We doubt that a new tax is the right prescription.
 - Smokers aren't the cause of the country's health care woes. And we don't think it will do the country much good to make us out to be scapegoats and ignore the problems of fraud, waste and abuse in the health-care industry.
 - Do we Americans really want our federal government in charge of health care?

Special Note

Key phrase to use in describing the Health Care Plan: **"Government Run"**