

ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 8672

9053 SENATE STATE AFFAIRS

II. METHODOLOGY

The central relationship in our study is the demand for cigarettes. This relationship explains how cigarette consumers react to changes in the price of a pack of cigarettes.³ This relationship also describes the decline in smoking nationwide, in particular, and how changing consumer preferences affect demand. Finally, the demand for cigarettes is affected by inflation when fixed, per-unit taxes are not indexed to the price level, as they are not in all states.

This section briefly discusses each of these considerations. The Technical Appendix explains these factors in greater detail.

The Demand Elasticity for Cigarettes

A demand elasticity describes how responsive consumers are to a change in price. If a large percentage increase in the price of cigarettes is followed by a larger percentage decline in the consumption of cigarettes, then economists say that the demand for cigarettes is "price elastic," that is, very responsive to a price change. There have been many studies of cigarette demand, dating back to at least 1933⁴. Among these, some carry more influence than others, especially those articles that appear in peer reviewed professional journals. Among the peer reviewed articles cited in this report, the average demand elasticity is -0.619; the average long-run demand elasticity is -1.033⁵. The Commission assumes an elasticity of -0.333, which is at the very low end of the estimate range of all the peer reviewed publications.⁶ By choosing a lower-bound elasticity estimate, the Commission overestimates the potential revenue gain, because a low elasticity implies that consumers purchase roughly the same quantity of a commodity, regardless of its price.

Moreover, elasticities tend to increase over time, as consumers learn to adjust to price changes. The Commission ignores this consideration entirely.

As a simple example, assume the average retail price of cigarettes is \$2 per pack. A \$1 per pack tax increase will raise the price by 50 percent. A price elasticity of -0.33, as assumed by the Commission, implies a 16.5 percent drop in consumption; i.e., the percent decline in demand is equal to -0.33 multiplied by the percent increase in price. On the other hand, a short-run elasticity of -0.619 implies a 31-percent drop in demand, and a long-run elasticity of -1.033 implies a 52-percent drop in demand. This drop in demand affects not only the revenues from the proposed \$1 per pack tax increase, but also reduces the number of packs on which the current \$0.29 tax per pack tax is collected.

³ This is the elasticity of demand for cigarettes. See Technical Appendix

⁴ See References.

⁵ See Appendix Table A-3 for full list of elasticities.

⁶ The Commission does not explicitly identify its elasticity, however, it can be inferred from their data. See Technical Appendix.

Such differences in estimating future consumption indicate that the Commission has significantly overstated potential tax collection.

Declining Cigarette Consumption

Per-capita cigarette consumption peaked in the United States in the mid-1970s, and has declined steadily since then.⁷ Total cigarette consumption has declined more slowly, because the decline in per-capita consumption has been partially offset by population growth. Trends in Alaska are similar to those for the nation overall. From 1984 to 1994 in the United States, per-capita cigarette consumption declined at a compound annual rate of -2.9 percent, whereas total cigarette consumption declined more slowly at a compound annual rate of -2.1 percent. Comparable figures for Alaska are -3.4 percent and -2.2 percent. The difference between the decline in per capita consumption and total consumption is slightly greater in Alaska than in the U.S. as a whole because Alaska's population has tended to grow more rapidly. Based on this experience, we assume that, holding cigarette prices constant, the demand for cigarettes declines by 2 percent per year from 1995 through 2000.⁸

The Commission ignores this long-standing decline in cigarette consumption, which also contributes to an overstatement in the revenue potential of the proposed \$1 per pack tax increase. After 5 years, the Commission's assumption leads to annual consumption and tax collections being overstated by approximately 10 percent.

Inflation and Revenue Estimates

Inflation affects the revenue potential of the proposed tobacco tax in at least two ways. First, the State cigarette tax in Alaska is a per-unit tax (currently, 29 cents per pack), and like all other states, is not indexed to inflation.⁹ Therefore, holding constant the quantity of cigarette packs sold, nominal cigarette tax revenues will remain constant through time (29 cents multiplied by the number of packs sold). The real (i.e., inflation-adjusted) value of these tax revenues would fall due to the declining purchasing power of the dollar. The Commission assumes that the real value of tax revenues remains constant at \$42 million per year.¹⁰ With inflation and declining demand, this is not possible. If the annual inflation rate is estimated to be 3.4 percent, the most recent official long-run forecast by the Congressional Budget Office (CBO), the real value of a \$1 per pack tax increase will have fallen to about \$0.85 after 5 years.

⁷ See The Tobacco Institute, 1994, p. 3.

⁸ These growth rates are calculated from data presented in The Tobacco Institute, 1994, p. 6, p. 194. Of course, assuming a higher rate of decline would reduce tax revenues even further.

⁹ No state indexes its per-unit tobacco tax to inflation. See The Tobacco Institute, 1994, p. 9.

¹⁰ See State of Alaska Long Range Planning Commission, p. 3, p. 26.

The Commission also ignores a second aspect of inflation, which tends to understate collections. The price per package of cigarettes can be broken into two parts: a nontax component and a federal plus state tax component. The nontax component is likely to rise with increases in the general price level. As indicated above, per-unit federal and State taxes are not indexed to inflation. Consequently, the inflation-adjusted price per pack will fall through time (everything else the same), due to the declining real cost of the tax burden. This effect is not considered by the Commission.

The nontax share is currently about 74 percent of the average Alaskan retail price of cigarettes, but falls to about 49 percent under the proposed tax increase.¹¹ The nontax portion of the retail price will tend to rise with inflation, while the tax portion is fixed. If we assume the nontax share grows with inflation at 3.4 percent annually, by the fifth year, under the proposed \$1 per pack tax increase, the real price will be overstated by approximately 7 percent.¹² With lower real prices, actual demand will be somewhat higher than would otherwise be the case.

The combined effect of the Commission's assumptions and methodology is to substantially overstate anticipated tax collections under the proposed \$1 per pack tax increase. The specific results of our analysis are discussed in the next section.

¹¹ The federal tax on each pack of cigarettes is \$0.24 and the State tax is \$0.29. The combined total tax rate of \$0.53 is equal to about 26 percent of the retail price. If the tax share increases by \$1 per pack to \$1.53, taxes will equal 51 percent of the retail price.

¹² Four years of inflation at 3.4 percent results in an upward price adjustment for the nontax share of 14.3 percent. With a 1996 retail price of approximately \$3 per pack following the proposed increase, the price in 2000 would be equal to the nontax price of \$1.47 increased by 14.3 percent, or \$1.68, plus the federal and State tax of \$1.53, for a total of \$3.21. The Commission implicitly assumes the entire retail price is increased with inflation, which would result in a 2000 retail price of \$3.43 per pack, or 7 percent higher.

III. RESULTS

The most relevant numbers for the State to consider in budget forecasting are current (or "nominal") dollar estimates. That is, how much money is expected to flow into the State treasury as a result of a given fiscal policy option. To be consistent with actual collections, such estimates must take into account expected price inflation. On the other hand, it can be useful to consider estimates expressed in constant dollars, provided that the calculations properly account for those factors that change with inflation (e.g., pretax cigarette prices) and those that do not (e.g., cigarette taxes expressed as a fixed amount per pack).

The Commission uses solely constant (or "real") dollars, while KPMG Barents' estimates are prepared both in current and constant dollars. To make the comparisons more meaningful, we also present the Commission's estimates in a form that adjusts for the effects of inflation. Both approaches show that the Commission's estimates are significantly overstated.

Differences in 1996 Dollars

The results of our study in real 1996 dollars are summarized below in Table 1. That is, these figures are consistent with the constant-dollar concept reported by the Commission. The table also shows the decline in local tax revenues not estimated by the Commission.

TABLE 1
ESTIMATED TAX COLLECTIONS UNDER A \$1 PER PACK INCREASE
(Millions of 1996 Dollars)

	FY1996	FY1997	FY1998	FY1999	FY2000
KPMG Barents' estimate ¹¹	32.6	28.2	24.1	20.4	17.1
Commission's estimate	42.0	42.0	42.0	42.0	42.0
Commission's overestimate	9.4	13.8	17.9	21.6	24.9
Percentage overestimate	29%	49%	74%	106%	146%
Local revenue loss not estimated by Commission	-0.8	-0.9	-1.0	-1.1	-1.1

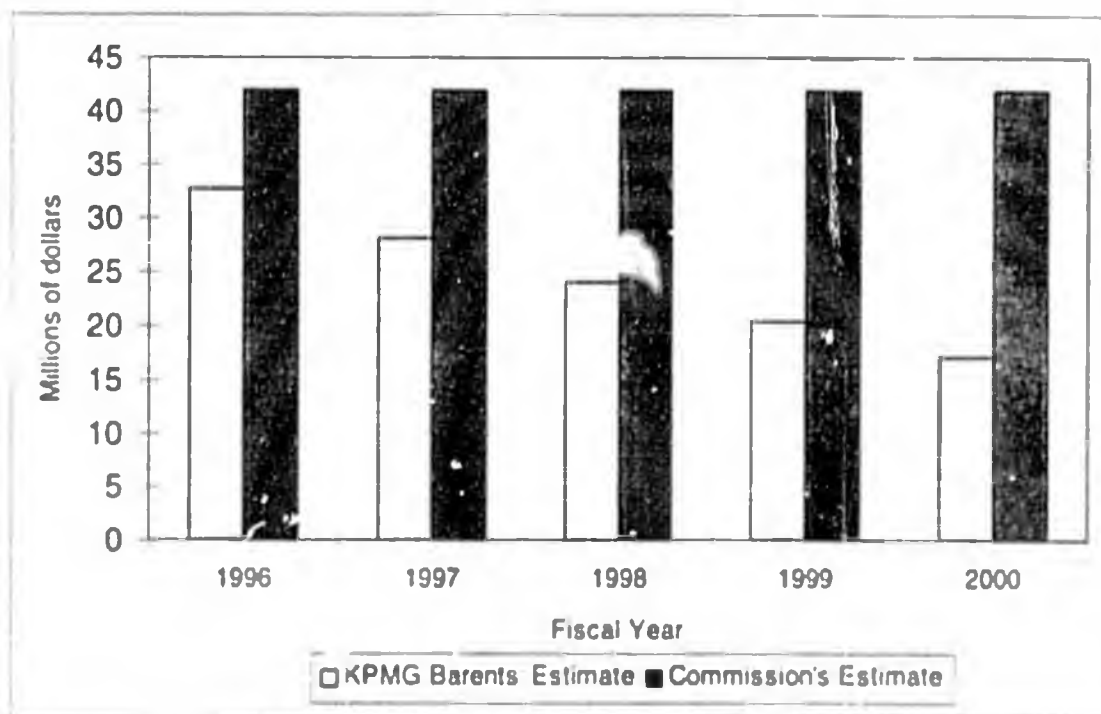
The KPMG Barents estimate expressed in real dollars shows the likely change in cigarette taxes from the \$1 per pack increase in the State tobacco tax. The tax increase begins in FY 1996 with a net real revenue gain for the State of \$32.6 million. This

¹¹ Isolated effect of a \$1 per pack increase; transition from short-run elasticity to long-run elasticity is spread over 5 years. That is, the short run elasticity is used in FY 1996, the long run elasticity is used in FY 2000, and the difference between the short-run and long-run elasticities is spread ratably over the intervening years.

amount then falls consistently until FY 2000 when the real value of the net gain in tax revenue is \$17.1 million. In real terms, the Commission's estimate remains constant at \$42 million per year. In FY 1996, the Commission's estimates exceeds the KPMG Barents estimate by \$9.4 million (29 percent over KPMG Barents); by FY 2000, the Commission's estimates exceeds the KPMG Barents estimate by \$24.9 million in real terms (146 percent over KPMG Barents). Figure 1 shows these estimates graphically. Clearly, the Commission has significantly overestimated the potential revenue in each year.

FIGURE 1

COMPARISON OF KPMG BARENTS' REVENUE ESTIMATE WITH COMMISSION'S ESTIMATE (IN 1996 DOLLARS)



The differences between the Commission's estimates and the KPMG Barents estimates are shown in Table 2. The largest single difference results from the Commission's use of a very low price elasticity of demand. By FY 2000, this single factor accounts for a \$17.4 million dollar gap. The historical long-run decline in demand for cigarettes is also significant and accounts for a \$3.7 million shortfall by FY 2000. The last major difference is the impact of inflation on the retail price of cigarettes. Here, the Commission apparently assumes that the average retail price in 1993 dollars will remain constant in real terms over the forecast period. While the pretax price may remain constant, existing federal and State cigarette taxes are constant in nominal terms, that is,

they are not adjusted for inflation. By not including this effect, the Commission overstates collections in FY 2000 by \$3.9 million.

TABLE 2

**RECONCILIATION BETWEEN COMMISSION'S
AND KPMG BARENTS ESTIMATES**
(Millions of 1996 Dollars)

	FY1996	FY1997	FY1998	FY1999	FY2000
Commission's Estimate	42.0	42.0	42.0	42.0	42.0
Elasticity	-9.1	-11.6	-13.8	-15.7	-17.4
Decline in demand	-0.9	-1.7	-2.4	-3.1	-3.7
Inflation	0.5	-0.6	-1.7	-2.8	-3.9
KPMG Barents Estimate	32.6	28.2	24.1	20.4	17.1

Differences in Nominal Dollars

The results of our study in nominal dollars are summarized in Table 3. More detailed results can be found in the Technical Appendix.

TABLE 3

ESTIMATED TAX COLLECTIONS UNDER A \$1 PER PACK INCREASE
(Millions of Current Dollars)

	FY1996	FY1997	FY1998	FY1999	FY2000
KPMG Barents estimate	32.6	29.1	25.8	22.6	19.5
Commission's estimate	42.0	43.4	44.9	46.4	48.0
Commission's overestimate	9.4	14.3	19.1	23.9	28.5
Percentage overestimate	29%	49%	74%	106%	146%
Local revenue loss not estimated by Commission	-0.8	-0.9	-1.1	-1.2	-1.3

The KPMG Barents estimate shows the likely change in cigarette tax revenue from the \$1 per pack increase in the State tobacco tax.¹⁴ Table 3 shows the tax increase beginning in FY 1996, which implies a net revenue gain for the state of \$32.6 million. This revenue gain decreases until by FY 2000, the nominal value of this increment in tax revenue has fallen to \$19.5 million.¹⁵ Table 3 also shows the amount and the percentage

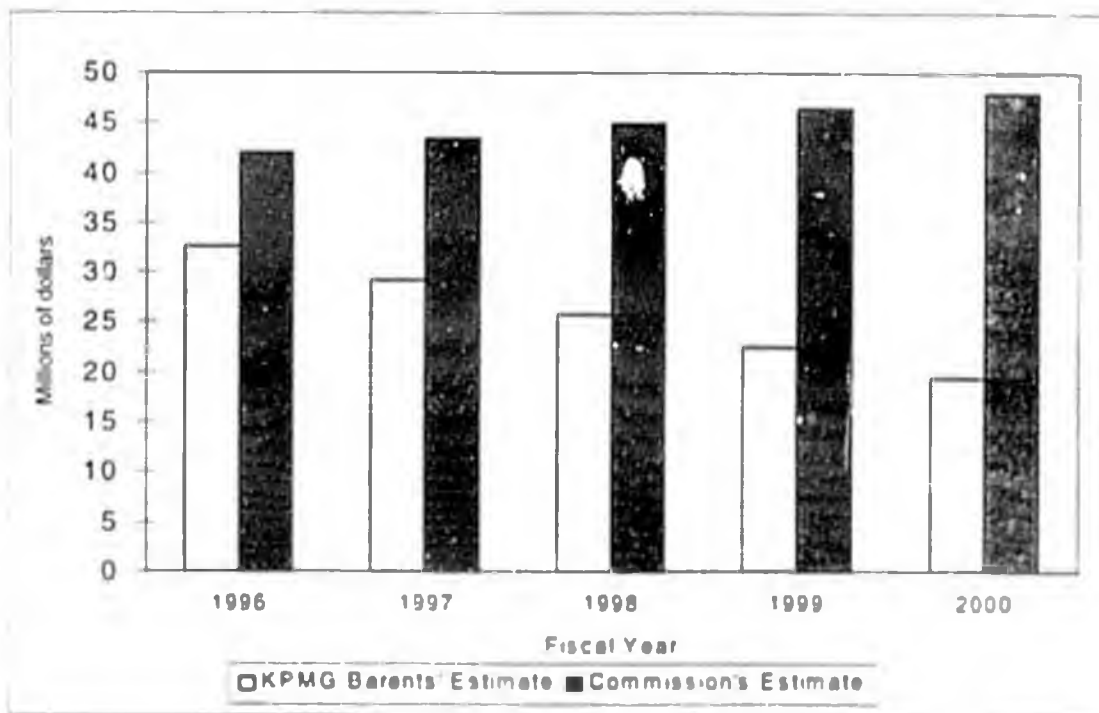
¹⁴ All values in the table are in nominal dollars. That is, they are not in real (i.e., inflation-adjusted) dollars.

¹⁵ The real value in 1995 dollars of this revenue gain in FY 2000 would be considerably less than \$20 million.

by which the Commission's calculations exceed the KPMG Barents estimate. In FY 1996, the Commission overestimates tax revenues by \$9.4 million (29 percent over the KPMG Barents estimate); by FY 2000, the Commission exceeds the KPMG Barents forecast by \$28.5 million (146 percent over the KPMG Barents estimate). Figure 2 shows both the KPMG Barents estimate and the Commission's estimate in nominal dollars.

FIGURE 2

**COMPARISON OF KPMG BARENTS' REVENUE ESTIMATES
WITH COMMISSION'S REVENUE ESTIMATES (ADJ. FOR INFLATION)**



Appendix Tables A-1 and A-2 presents in detail the derivation of the KPMG Barents estimates. Further discussion of the methodology is provided in the Technical Appendix.

Local Tax Effects

The Commission projects that the fiscal gap in the State of Alaska will widen to \$861 million (1996 dollars) by the year 2000¹⁶. The KPMG Barents estimate of \$17.1 million (1996 dollars) represents only 2 percent of that gap. In addition, the proposed \$1 tax increase will impair the revenue collection efforts of Alaska's three largest municipal governments: Anchorage, Fairbanks, and Juneau.

¹⁶ See State of Alaska Long-Range Financial Planning Commission, 1995, p. 6.

Tables 4 and 5 show the local tax effects in 1996 and in current dollars. The annual decline in collections is approximately \$1 million with about 80 percent of the impact occurring in Anchorage. In 1996 dollars, over the five-year period, Anchorage collections will decline by a total of \$4 million, Fairbanks will lose about \$700,000, and Juneau will lose about \$300,000. Collections for these three municipal governments will decline by a total of almost \$5 million dollars over the five-year period.

TABLE 4

**ESTIMATED IMPACT OF \$1 STATE CIGARETTE TAX INCREASE
ON LOCAL TAX COLLECTIONS**
(Thousands of 1996 Dollars)

City	FY1996	FY1997	FY1998	FY1999	FY2000	Total
Anchorage	-659	-735	-802	-861	-914	-3,971
Fairbanks	-115	-128	-140	-150	-159	-691
Juneau	-46	-52	-56	-61	-64	-279
Total Local Taxes	-820	-914	-998	-1,072	-1,137	-4,942

The total decline in local tax collections expressed in current dollars will be similar to the 1996 dollar figures, although somewhat higher due to the effects of inflation. The decline in collections for the three municipal governments over the five year period is \$5.3 million in current dollars. Table 5 shows those figures.

TABLE 5

**ESTIMATED IMPACT OF \$1 STATE CIGARETTE TAX INCREASE
ON LOCAL TAX COLLECTIONS**
(Thousands of Current Dollars)

City	FY1996	FY1997	FY1998	FY1999	FY2000	Total
Anchorage	-659	-760	-858	-952	-1,044	-4,273
Fairbanks	-115	-132	-149	-166	-182	-744
Juneau	-46	-53	-60	-67	-73	-300
Total Local Taxes	-820	-945	-1,067	-1,185	-1,300	-5,318

Military Sales and Bootlegging

The proposed tax increase would make the combined State plus federal cigarette tax higher in Alaska than in any other state.¹⁷ Given an average retail price of \$2.01 per

¹⁷ Michigan currently has the highest state cigarette tax rate at 75 cents per pack.

pack in Alaska, this amounts to a 50 percent increase in the price of cigarettes.¹⁸ Consequently, consumers of cigarettes sold in Alaska would have an incentive to reduce their consumption of taxable cigarettes. Some people would do this by smoking less; others would seek nontaxable or lower-priced sources of cigarettes. There are four ways by which lower priced cigarettes may be attained: cross-border purchases, purchases on Indian reservations, purchases on military installations, and bootlegging. Although Alaska has a long border with Canada, two of its major cities (Anchorage and Fairbanks) are not in close proximity to it. Moreover, cigarette taxes in the two bordering jurisdictions (Yukon Territory and British Columbia) would remain higher than in Alaska, even with the proposed tax change. Consequently, there would be little incentive for cross-border purchases. Similarly, there is only one Indian reservation in Alaska (tribal land on Annette Island) where State and federal cigarette taxes are not levied. However, this jurisdiction is relatively small and isolated and would not be a major source of cigarettes.

Legal and illegal (bootlegged) sales involving military installations could become an even larger source of cigarettes in the State if the proposed \$1 per package tax increase is enacted. Cigarette purchases at military commissaries and exchanges are exempt from federal and state taxes. Current and retired military personnel and their relatives enjoy tax-free privileges. The prices of cigarettes at military bases are, therefore, much lower, and the 345 percent proposed tax increase can be expected to increase the propensity for Alaska residents to purchase their cigarettes through alternative non-taxed means.

Although sales to nonfamily civilians are illegal, military personnel might sell bootleg cigarettes to civilians off-base. Indeed, bootlegging appears to be widespread in Alaska and elsewhere. In 1994, over 45 million cigarette packs were sold at military commissaries in Alaska.¹⁹ During the same year, taxable unit sales at civilian outlets were 53.6 million packs. Thus, there are almost as many unit sales at Alaskan military bases as elsewhere in the State. Indeed, if complete data were available for Elmendorf -- these figures include only 5 months of Elmendorf sales -- total military base sales would likely be greater than taxable sales.²⁰

One reason for the high sales volume at military installations is the relatively high ratio of military personnel-to-resident population in Alaska. In 1992, this ratio was 4.2

¹⁸ See The Tobacco Institute, 1994, p. 194 for the average retail price of cigarettes in Alaska.

¹⁹ These data are from military scanning audits at four of the five major military bases in Alaska: Fort Greely in Fort Greely, Fort Richardson in Anchorage, Fort Wainwright in Fairbanks, and Eielson Air Force Base in Fairbanks. Scanning at Elmendorf Air Force Base in Anchorage did not begin until March 1995, and purchases at Elmendorf typically equal the unit sales of the other four bases combined. There are nine other military installations in Alaska, but cigarette sales at these other bases are small compared to sales at the five major bases.

²⁰ During the 5-month period for which Elmendorf data are available, average monthly sales at Elmendorf were 3.3 million packs. If the same average monthly sales rate were to be applied to the other 7 months, total military sales would increase by 23 million packs.

percent in Alaska, whereas the national ratio was 0.5 percent.²¹ However, legal sales to military personnel and their families may constitute only a small part of the high volume of cigarette sales on military installations in Alaska. For comparison, in fiscal year 1993-94 in California, taxes were paid on 1,824 million packages; tax-exempt sales on military bases were only 79 million packages.²² Unlike most states, approximately half the entire civilian population in Alaska lives within an easy commute of a military installation.²³ Alaska has fourteen military installations with 24,559 active military personnel, 32,189 dependents, and 7,393 civilian employees. Eight of these installations are within 30 miles of a population center. More complete details can be found in Table A-4 in the Appendix.

Currently the 56,748 residents of Alaskan military bases purchase an average of 793 non-taxed packs of cigarettes per year. This compares with only 96 taxable packs per year purchased from local businesses by the States 556,000²⁴ non-military residents. Average per capita consumption in Alaska is 161 packs per year²⁵. This implies that residents of Alaskan military bases would be expected to smoke a total of 9.1 million packs of cigarettes a year, and that the remaining 35.9 million packs purchased on military bases are finding their way to the local population. If these 35.9 million packs were purchased legally and, therefore, taxed, the State would raise an additional \$10.4 million in tax revenues each year at the current \$0.29 rate. In addition to the \$10.4 million of lost State revenue, the municipal governments of Anchorage, Fairbanks, and Juneau are also, in effect, losing revenue. With the proposed tax increase, more cigarette purchases are likely to occur through bootlegging, causing the State and local governments to lose even more revenues.

Although it is not possible to estimate exactly the current level of this illegal activity nor to estimate exactly the increase in bootlegging that would occur as a result of this tax increase, experience in other states indicates that cigarette sales on military bases surge after large increases in cigarette excise taxes.

²¹ For comparison, the ratio was 0.6 percent in California, 0.3 percent in Illinois, and 0.1 percent in New York in 1992. See Statistical Abstract of the United States, 1992, p. 22, p. 338.

²² See California State Board of Equalization, Table 30B.

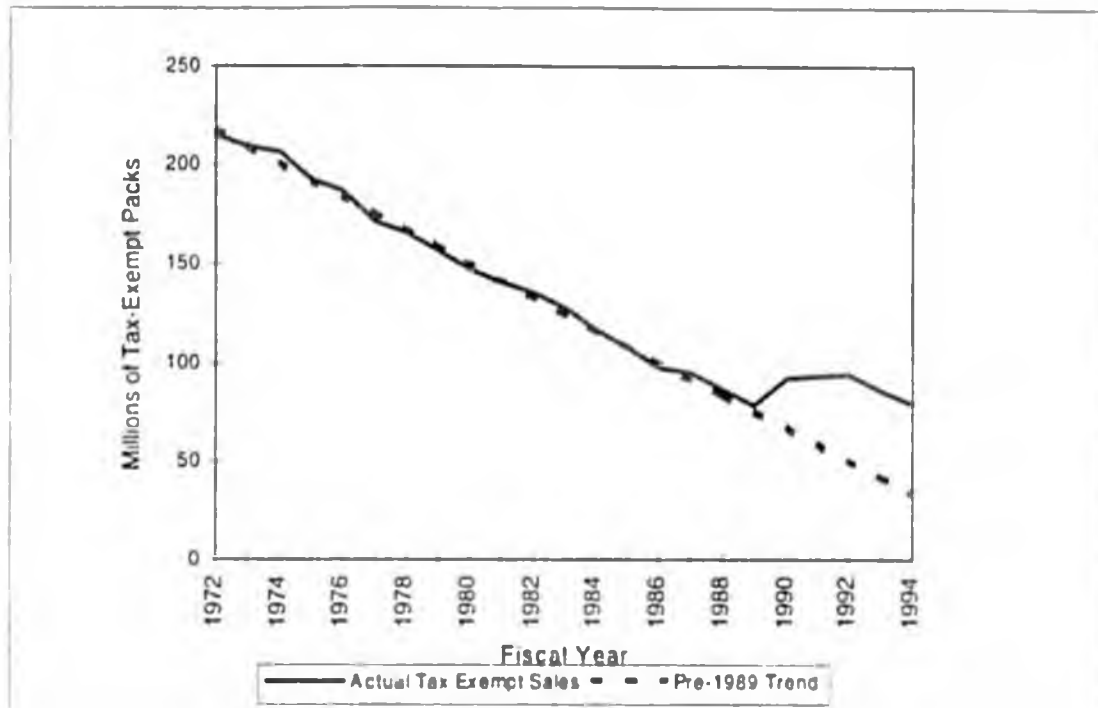
²³ Approximately half of the resident population of Alaska is concentrated in Anchorage, Juneau, and Fairbanks and can easily travel to a military base.

²⁴ WIFA Group estimate of population for 1995 (612,600) minus military.

²⁵ Total cigarette consumption in Alaska (53.6 million plus .5 million) divided by total population of 612,600.

FIGURE 3

TAX-EXEMPT CIGARETTE SALES IN CALIFORNIA, 1972-1994²⁶



In 1989, California more than tripled its cigarette tax from 10 cents to 35 cents per pack, which was the first increase in the State cigarette tax in 22 years. Cigarette sales on military bases in the State jumped 18 percent that year.²⁷ This increase can be clearly seen in Figure 3. Also notable in Figure 3 is the deviation of actual tax-exempt cigarette sales from the pre-1989 trend. Had the excise tax on cigarettes not been increased in California, it is likely that tax-exempt cigarette sales would have continued to fall, as shown by the trend line.

Even more dramatic was the surge in sales on the two major bases in Michigan following the tripling of Michigan's cigarette tax rate from 25 cents per pack to 75 cents on May 1, 1994. Comparing the period October through April following the tax increase to the same seven-month period immediately before the tax increase, tax-exempt unit sales surged 53 percent on these two bases (Selfridge and K. I. Sawyer).

Bootlegging, of course, is not limited to military installations. In the face of cigarette taxes that grew to roughly five times those in the United States, cigarettes

²⁶ Source: Annual Report of the Excise Taxes Division of the California State Board of Equalization, "Table 30-B - Cigarette Distributions and Per Capita Consumption 1959-60 and 1993-94," 1995.

²⁷ See California Department of Revenue, Table 30B - Tax-exempt sales increased from 78 million packs to 92 million packs from 1989 to 1990. This was very unusual, since tax-exempt sales had declined each year since 1972.

smuggled into Canada soared from 1986 to 1994. In one report in 1993, it was estimated that 50 percent of the cigarette volume in the province of Quebec was smuggled.²⁸

Due to its clandestine nature, it is extremely difficult to measure the responsiveness of illicit trade to a large percentage increase in a State's cigarette tax rate. Nonetheless, there is strong evidence that a 50 percent increase in cigarette prices in Alaska would further drive sales underground, and that the most likely channel for these transactions would involve bootlegging from military installations. Since Alaska is more prone to this activity than most states, it is likely that the elasticity assumptions used in Table 1 (-0.619 short run; -1.033 long run) are too small. Increasing these elasticities would further reduce the expected net increases in tax revenue from the proposed \$1 per pack tax.

The Regressive Nature of Excise Taxes

In addition to not raising the desired revenues, tobacco excise taxes are regressive in nature. The burden of the Commission's proposed \$1 tax increase will fall disproportionately on those least able to pay it.

One way to measure the regressivity of a tax system is to look at the relative tax paid by each income group. The burden of a regressive tax will fall more heavily on those with lower income than on those with higher income. That is, under a regressive tax regime, those with low income will pay a higher percentage of their income on taxes than those with higher incomes. A progressive tax regime has the opposite effect: high income groups pay a larger percentage of their income than a lower income group.

Consider an Alaska resident who smokes one pack of cigarettes per day. That smoker currently pays \$105.85 in excise taxes per year²⁹. Under the proposed tax increase, that smoker will pay \$470.85 in excise taxes per year - an increase of \$365. This increase will affect those with lower incomes disproportionately. Figure 4 represents this graphically. Clearly, as income increases, the percentage of income spent on these excise taxes approaches zero. The average real personal income in Alaska is \$24,650³⁰. Thus, on average, the excise tax of \$470.85 per year represents almost 2 percent of real personal income.

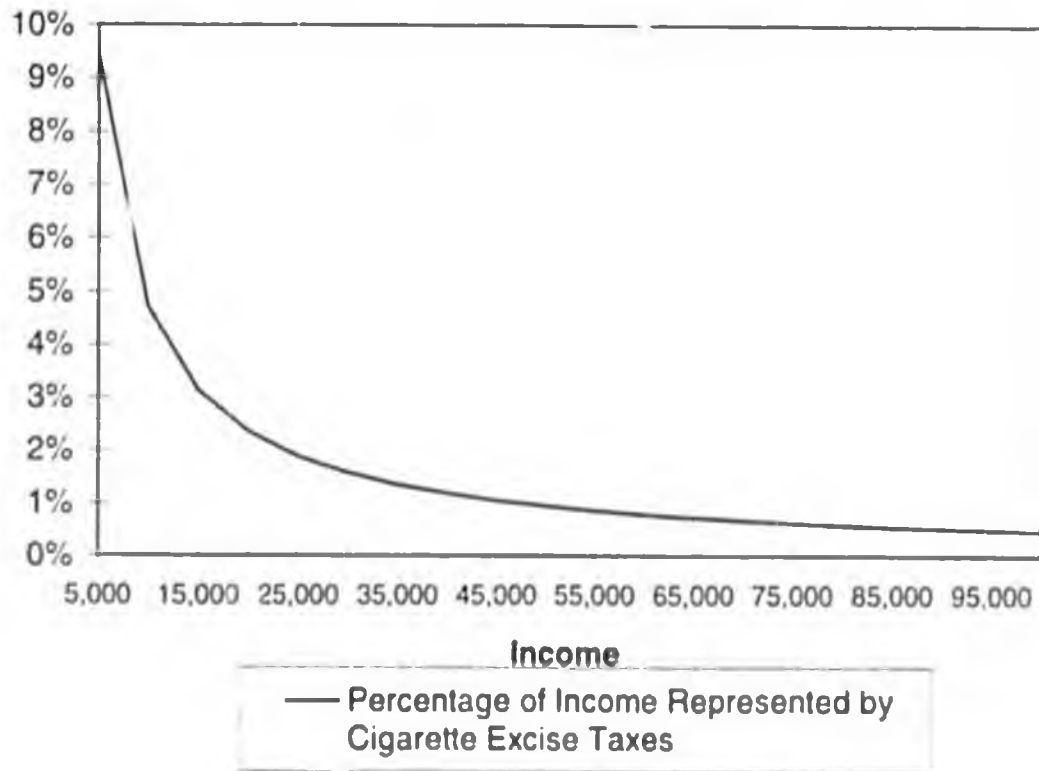
²⁸ See Wall Street Journal, December 8, 1993, and Linquist, Avey, Macdonald, and Baskerville, 1994

²⁹ 365 days x \$0.29 current taxes = \$105.85

³⁰ \$15.1 billion of total real personal income divided by total population of 612,600 from the WEFA Group, *Regional Forecast Fall 1995*, p. 11-12.

FIGURE 4

PERCENTAGE OF INCOME SPENT ON
CIGARETTE EXCISE TAXES BY A 1-PACK PER DAY SMOKER
FOLLOWING THE PROPOSED \$1 TAX INCREASE



IV. CONCLUSION

This report shows that the State of Alaska Long-Range Financial Planning Commission considerably overstates the revenue potential of the proposed \$1 per package increase in the State cigarette tax. This is because the Commission assumes an unrealistically low demand elasticity for cigarettes. The Commission also ignores the secular decline in cigarette consumption and the tendency for demand elasticities to increase over time. Elasticities are likely to be relatively large (larger than we assume in this report) due to the high accessibility of military bases to the civilian population in Alaska. The Commission also confuses nominal tax revenues from a per-unit tax with inflation-adjusted tax revenues.

We find that the Commission overstates potential tax revenues from the proposed tax increase by almost \$10 million (29 percent) in FY 1996, and that this overestimate grows to \$25 million (146 percent) by FY 2000. Consequently, the proposed tax increase would have a much smaller impact on Alaska's fiscal gap than claimed by the Commission. In addition to having a much smaller impact on the deficit, the proposed tax is likely to increase the illicit trade in cigarettes. By decreasing taxable unit sales in Alaska, the proposal will adversely affect the tax bases of local jurisdictions (Anchorage, Fairbanks, and Juneau) that tax cigarette sales. Over the five year period, these local taxes will decline by approximately \$5 million. Finally, due to the regressive nature of tobacco taxes, the proposed increase will adversely affect those State residents least able to afford it.

TECHNICAL APPENDIX

In order to estimate the change in tax revenue caused by an increase in excise taxes, it is necessary to understand how that increase in excise taxes will affect consumer behavior. Excise taxes are typically shifted forward to the consumer in the form of a price increase, and consumers will react to that increase in price according to their price elasticity of demand for that product. The concept of price elasticity of demand is central to this analysis.

In addition to discussing elasticity of demand, this appendix also discusses the scenarios considered in arriving at the KPMG Barents revenue estimate, the constant and current dollar estimates, a summary of elasticities of demand from various journals, and provides more detailed information on the military bases in Alaska.

1. Elasticity of Demand (E_d)

The elasticity of demand (E_d) is defined as the percentage change in quantity demanded caused by a one-percent change in the consumer price of a commodity. For example, if a one-percent change in the price of a package of cigarettes causes a 0.8 percent decline in the quantity of cigarettes demanded, then the elasticity of demand for cigarettes is -0.8. By definition

$$\Delta Q = E_d \left[\frac{P + \Delta P}{P} - 1 \right] Q$$

In 1993/94 in Alaska $P = \$2.009/\text{pack}$, $Q = 52.8$ million packs sold, and ΔP (the proposed tax increase) = \$1. Gross cigarette tax revenues were \$15.321 million, and the Commission claimed that with the tax, gross tax revenues would be \$57 million. Therefore

$$.29 Q_0 = \$15.321 \text{ million}$$

$$1.29 Q_1 = \$57 \text{ million, and}$$

$$Q_0 = 15.321 / .29$$

$$Q_1 = 57 / 1.29$$

Solving for $Q_1 - Q_0 = -8.6$ million packages. Thus, $E_d = -.33$.

Instead of using only the price elasticity of demand used by the Commission, KPMG Barents uses more appropriate elasticities of demand for both the long-run and the short-run. The elasticities chosen are based on elasticities reported in studies of cigarette demand in professional, peer reviewed journals.

2. Scenarios of Appendix Tables A-1 and A-2

Scenario (1), the KPMG Barents estimate, shows the transition from the short run to the long run, after price changes caused by inflation have been removed and changing consumer preferences are recognized. We assume that the transition from the short run to the long run occurs over five years, so that by FY 2000 the revenue impact is identical to that in long-run Scenario (2c). Similarly, the initial revenue impact in FY 1996 in the KPMG Barents estimates is assumed to equal the FY 1996 revenue value for short-run Scenario (3c).

Scenarios (2a), (2b), and (2c) derive the long-run net new revenues generated from a \$1 per pack increase in the State cigarette tax. For each year, we assume that the long-run demand elasticity of -1.033 applies to the change in cigarette prices. Scenario (2a) shows the long-run revenue impact of the \$1 proposed tax increase. (2b) shows the tax revenue impact of changes in demand without the tax increase. Scenarios (3a), (3b), and (3c) perform the same analysis using a short-run demand elasticity of -0.619.

Scenarios (4a) through (4d) represent models similar to those used by the Commission and use a price elasticity of -0.333. The overestimates caused by the Commission's misspecifications are found by subtracting the KPMG Barents estimate (Scenario 1) from Commission Scenario (4d). The amount of overestimation is also indicated in the table as Scenario (5).

3. Appendix Table A-1: Estimates in constant dollars

The Commission's revenue estimate of \$42 million of increased tax revenue per year is computed in constant, Fiscal Year 1996 dollars. By definition, therefore, the Commission does not account for inflation. Appendix Table A-1 follows the same methodology and presents the results in constant, 1996 dollars. KPMG Barents, however, starts with revenue estimates in current, inflation adjusted dollars, and deflates those values using the Congressional Budget Office's (CBO) inflation forecasts¹¹ to arrive at constant dollar figures.

4. Appendix Table A-2: Estimates in current dollars

We use the Congressional Budget Office ("CBO") inflation forecast to increase the nontax component of the price of a pack of cigarettes. The tax component (federal cigarette tax plus State cigarette tax) is fixed, and is added to the nontax component to give the nominal cigarette price each year. This is the inflation adjusted price of a pack of cigarettes. KPMG Barents uses this inflation-adjusted price in estimating the change in quantity of cigarettes demanded, and the effect of inflation is carried through all the calculations.

¹¹ For CBO's inflation forecast, An Analysis of the President's Budgetary Proposals for Fiscal Year 1996, April 1995.

5. Appendix Table A-3

Table A-3 is a summary of cigarette price elasticities dating from 1933 to the present. The studies reflect a variety of methodologies, but all are studies of the demand for cigarettes. KPMG Barents chose to use averages of those elasticities cited in the peer reviewed journal articles for this study.

6. Appendix Table A-4

Table A-4 is a summary of information from the Directory of U.S. Military Bases Worldwide edited by William R. Evinger in 1995. It clearly illustrates the proximity of many Alaskan military bases to the large population centers.

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APPENDIX TABLE A-1
DERIVATION OF KPMG BARENTS REVENUE ESTIMATES
 (.a millions of 1996 dollars)

	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000
1. KPMG Baronts' estimate	0.00	32.62	28.16	24.10	20.40	17.05
Assumed short-run to long-run elasticity phase-in rate			0.25	0.50	0.75	1.00
2a. \$1 state tax increase; E=-1.033	15.54	34.67	33.41	32.20	31.01	29.87
2b. No state tax increase; E=-1.033	15.54	15.36	14.68	14.03	13.41	12.81
2c. #1a minus #1b (netting out long-run price effects)	0.00	19.31	18.73	18.16	17.60	17.05
3a. \$1 state tax increase; E=-.619	15.54	47.93	45.89	43.93	42.04	40.23
3b. No state tax increase; E=-.619	15.54	15.31	14.58	13.89	13.23	12.60
3c. #2a minus #2b (netting out short-run price effects)	0.00	32.62	31.30	30.03	28.81	27.63
4a. \$1 state tax increase; E=-.333	15.54	57.09	54.41	51.84	49.39	47.06
4b. No state tax increase; E=-.333	15.54	15.27	14.52	13.80	13.11	12.46
4c. State of Alaska's revenue impact estimate: (properly dollated)	0.00	41.82	39.89	38.05	36.28	34.60
Overestimate (compared to baseline, #1):	0.00	9.20	11.73	13.95	15.88	17.55
4d. Commission's estimate	0.00	42.00	42.00	42.00	42.00	42.00
Overestimate (compared to baseline, #1):	0.00	9.38	13.84	17.90	21.60	24.95
Percentage overestimate:		28.7%	49.1%	74.3%	105.8%	146.3%

APPENDIX TABLE A-2
DERIVATION OF KPMG BARENTS REVENUE ESTIMATES
(in millions of current dollars)

	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000
1. KPMG Barents' estimate	0.00	32.62	29.12	25.76	22.56	19.50
Assumed short-run to long-run elasticity phase-in rate			0.25	0.50	0.75	1.00
2a. \$1 state tax increase; E=-1.033	15.54	34.67	34.55	34.42	34.29	34.14
2b. No state tax increase; E=-1.033	15.54	15.36	15.18	15.00	14.83	14.65
2c. #1a minus #1b (netting out long-run price effects)	0.00	19.31	19.37	19.42	19.46	19.50
3a. \$1 state tax increase; E=-.619	15.54	47.93	47.45	46.96	46.48	45.99
3b. No state tax increase; E=-.619	15.54	15.31	15.08	14.85	14.63	14.41
3c. #2a minus #2b (netting out short-run price effects)	0.00	32.62	32.37	32.11	31.85	31.58
4a. \$1 state tax increase; E=-.333	15.54	57.09	56.26	55.43	54.61	53.79
4b. No state tax increase; E=-.333	15.54	15.27	15.01	14.75	14.49	14.24
4c. State of Alaska's revenue impact estimate: (properly deflated)	0.00	41.82	41.25	40.68	40.11	39.55
Overestimate (compared to baseline, #1):	0.00	9.20	12.13	14.91	17.56	20.06
4d. Commission's estimate	0.00	42.00	43.43	44.90	46.43	48.01
Overestimate (compared to baseline, #1):	0.0	9.4	14.3	19.1	23.9	28.5
Percentage overestimate:		28.7%	49.1%	74.3%	105.8%	146.3%

APPENDIX TABLE A-3
SUMMARY OF STUDIES OF CIGARETTE PRICE ELASTICITIES OF DEMAND

Author	Year	Type of analysis	Time Period	Price Elasticity
Schoenberg	1933	Time-series Ordinary least squares	1923-1931	-0.25 and -0.68
Stone	1945	Time-series Ordinary least squares	1929-1941	-0.39
U.S. Treasury Dept.	1948	Time-series	1929-1943	-0.01
Rockwell	1948	Time-series	1927-1941	-0.03
Temnant	1950	Time-series Ordinary least squares	1913-1945	inelastic
Federal Reserve Bank of Richmond	1952	Time-series	1929-1948	-0.66
Maier	1955	Cross-section Each year estimated separately	1947-1951	-0.31 to -1.48
Sackrin	1962	Time-series	1926-1958	-0.3 to -0.4
Koutsoyannis	1963	Time-series Aggregate tobacco consumption international results	1950-1959	-0.036 to -0.951
Vernon, et al.	1967	Time-series 19 equation econometric model of the tobacco industry	1949-1966	-0.43

Author	Year	Type of analysis	Time Period	Price Elasticity
Houthakker and Taylor	1970	Cross-section Three-pass least squares	1964-1967	-0.54
Miller	1970	Time-series	1949-1968	-0.89
Laughunn and Lyon	1971	pooled Bayesian regression	1950-1968	-0.81
Mann	1971	Time-series	1949-1969	-0.84
Hamilton	1972	Cross-section Ordinary least squares	1954-1965	-0.51
Schmalensee	1972	Time-series Ordinary least squares	1947-1967	-0.32 (short-run) -1.1 (long-run)
Schnabel	1972	Time-series Ordinary least squares	1949-1963	-0.85
Sutton	1974	Time-series	1950-1972	-0.45
Warner	1977	Time-series	1947-1970	-0.511
Ippolito, Dennis and Sant	1979	Time-series Cochrane-Orcutt procedure	1925-1925	-0.81
Lewit and Coate	1980	Cross-section Ordinary least squares	1976	-0.4
Fuji	1980	Time-series Ridge regression	1929-1973	-0.48

Author	Year	Type of analysis	Time Period	Price Elasticity
Schneider, Klein and Murphy	1981	Time-series	1930-1978	-1.2
Young	1983	Time-series	1929-1973	-0.33 to -0.34
		Ridge regression		
Sumner and Alston	1984	Time-series	1946-1983	-0.29
		Generalized least squares		
Sullivan	1985	Panel	1955-1982	-0.66
		Generalized least squares		
Baltagi and Levin	1986	Panel	1963-1980	-0.215
		Hausman-Taylor estimation		
Porter	1986	Time-series	1947-1982	-0.05 to -0.29
		Two stage least squares		
Baltagi and Goel	1987	Time-series	1956-1983	-0.114 to -0.917
		Quasi-experimental method		
Kao and Tremblay	1988	Time-series	1953-1980	-0.50 to -1.0
		Two stage least squares		
Russo	1989	Cross-section	1980	-0.57
		Tobit maximum likelihood		
Chaloupka	1991	Time-series	1976-1980	-0.37 to -0.27
		Two stage least squares		

Author	Year	Type of analysis	Time Period	Price Elasticity
Wasserman et al.	1991	Time-series Generalized liner model	1975-1985	-0.283 to 0.059
Keeler, Hu and Barnett	1991	Time-series Full information maximum likelihood with instrumental variables	Jan. 1980 - Jan. 1990	-0.35 (pretax) -0.65 (posttax)
Becker, Grossman, and Murphy	1994	Time-series of state Cross-sections Two-stage least squares	1955-1985	-0.734 to -0.788 (Long-Run) -0.355 to -0.436 (Short-Run)
Franke	1994	Time-series Logarithmic ordinary least squares and two stage least squares	1961-1990	-0.368 to -0.547
Reekie	1994	Time-series Logarithmic and linear ordinary least squares	1970-1989	-0.877
Townsend, Roderick, and Cooper	1994	Time-series Multiple regression analysis	1972-1990	-0.5 (men) -0.6 (women)
Saba, Beard, Ekelund, and Ressler	1995	Time-series for Cross-section of states Nonlinear least squares estimation	1960-1986	-1.30

Author	Year	Type of analysis	Time Period	Price Elasticity
Tremblay and Tremblay	1995	Time-series	1955-1990	-0.404 to -0.429
		Two stage least squares and weighted two stage least squares		-0.706 to -0.745 (1990)

**APPENDIX TABLE A-4
ACTIVE MILITARY BASES IN ALASKA**

<i>Name of Base</i>	<i>Location</i>	<i>Active Duty Personnel</i>	<i>Dependents</i>	<i>Civilian Personnel</i>
Adak Naval Air Station	On Adak Island in Andreanof Islands of Aleutian Chain; approximately 1220 miles from Anchorage.	650	200	230
Adak Naval Security Group Activity	On Adak Island in Andreanof Islands, approximately 1200 air miles South West of Anchorage.	600	450	25
Elmendorf Air Force Base	North side of Anchorage city limits.	7,000	13,000	2,400
Kulis Air National Guard Base	At Anchorage IAP off Raspberry Road, approximately 5 miles from downtown.	1,200		245
Eareckson Air Force Base	Remote Air Force Base, 1500 miles South West of Anchorage at westernmost tip of the Aleutian Islands.	550		25
Eielson Air Force Base	26 miles South East of Fairbanks on Richardson Highway.	2,786	4,439	1,498
Fort Greely	105 miles South of Fairbanks on Richardson Highway.	500	300	100
Fort Richardson	Approximately 8 miles North of Anchorage on Glenn Highway.	4,400	5,600	1,570
Fort Wainwright	Approximately 0.25 miles from Downtown Fairbanks	5,000	6,700	1,150
17th Coast Guard District Headquarters	In Federal Building in downtown Juneau	233		36
Ketchikan Coast Guard Base/Group	In South East Alaska, 1 mile South of Ketchikan on Revillagigedo Island; not accessible by road.	250		25
King Salmon Airport	727 miles just West of Aleutian range approximately 280 miles South West of Anchorage; 0.5 miles from Town of King Salmon. Not Accessible by ground transportation.	290		17
Kodiak Coast Guard Support Center	North East corner of Kodiak Island, 7 miles South of Kodiak.	1,100	1,500	62
Tatalina Air Force Station	Approximately 230 air miles North West of Anchorage; 150 miles West of Mt. McKinley			10
Total		24,559	32,189	7,393

Note: Anchorage Naval Reserve Center with no reported personnel has been excluded from this table.

Source: Evinger, William R., ed. *Directory of U.S. Military Bases Worldwide*. Phoenix: Oryx Press, 1995.

THE TOBACCO INSTITUTE

1215 FORTUITOUS STREET • SUITE 400
SACRAMENTO, CA 95811
916/444-2200 • 916/444-6211 FAX

DANIEL M. HOWIE
Vice President
916/444-2474

The Tobacco Institute, on behalf of its member companies, respectfully submits the following statement in opposition to House Bill 431.

THE ECONOMIC EFFECTS OF INCREASING THE ALASKA CIGARETTE TAX BY \$1.00 PER PACK

Alaska is considering a tax proposal that would raise the current cigarette tax by \$1.00/pack, or to \$1.29c/pack. That tax is compounded in Anchorage, Fairbanks and Juneau, by local excise taxes. In Anchorage, where over 40% of the Alaska population resides, the local cigarette tax is 26 cents/pack. An Anchorage smoker would thus pay \$1.55/pack, or \$15.55 per carton, in cigarette taxes. To put things in perspective, the Alaska cigarette tax would be nearly 5 times larger than the average state cigarette tax (32 cents/pack) and nearly double the current top cigarette tax.

When cigarette taxes reach such a stupendous level, many of the familiar problems associated with excise taxes become sharpened. Tax evasion is a prime example. This proposal provides powerful incentives for smuggling. Smugglers bringing in cigarettes from lower tax states could make over \$10 per carton in profits. A small container-load would have a profit potential in excess of \$50,000. Alaska already has a well documented tax evasion problem with military bases. There are over 50,000 military personnel, including retirees and dependents, buying cigarettes free of state taxes at these bases. A 1996 study by Peat Marwick found that an astounding 45 million packs of cigarettes are sold through military bases in Alaska. This represents an incredible 84% of taxable reported sales in Alaska (53.6 million packs).

With tax saving opportunities such as these, Alaska would become like Canada. In 1993, the Canadian government estimated that smuggling accounted for almost 50% of all cigarette sales. In 1994, their cigarette tax was reduced in the major provinces by over \$2.00/pack in order to break this smuggling epidemic. In announcing the cuts, the Canadian Prime Minister Jean Chretien said: "Smuggling is threatening the safety of our communities and the livelihood of law-abiding merchants. It is a threat to the very fabric of Canadian society."

By encouraging a massive underground market, Alaska would also make it more difficult to keep cigarettes out of the hands of youth. Black marketers do not respect youth access laws any more than they do tax laws. The surest way to control youth sales is by working with legitimate retailers, not smugglers. By creating an illegal market, Alaska would simply be making those efforts more difficult.

Another casualty would be Alaska's legitimate retailers. According to the Peat Marwick study, retailers could eventually lose 52% of their sales. In Canada, retailers had lost so much that they protested by selling smuggled smokes to hordes of delighted smokers at cut-rate prices. The huge drop in Alaska sales will also mean substantially lower revenues for the government than forecasted by Alaska's Long Range Financial Planning Commission. Peat Marwick found that the Commission overestimated revenues by 129%.

The enormous tax increase would unfairly punish a minority population for goods and services designed to benefit all of Alaskan society. An average smoker would pay over \$800 per year in state cigarette taxes. For the 30% of Alaskan households making \$30,000 or less, this is an incredible burden to bare. What other demographic group in Alaska pays this much in total taxes?

SMOKING AND TAXES

There exists an incorrect assumption that high state cigarette taxes discourage cigarette consumption.

On close examination, that assumption is without foundation. Smoking rates within a given state are a function of a variety of demographic and cultural factors. Price is not considered to be one of them. In fact, economists have proven statistically that cigarette consumption is insensitive to price and taxes. As economists put it, taxes have a very inelastic, or unresponsive effect on cigarette demand. Clearly there are more powerful forces in play.

Utah, for example, contradicts the assumption of low taxes equaling higher consumption. Utah has the lowest adult smoking rate in the country. It also has a cigarette excise tax that is lower than the national average. When one takes into account the presence and cultural influence of the Mormon population - a group that vigorously opposes cigarette smoking - the contradiction is easy to understand.

Opponents of tobacco products point to the apparent connection between low tax states and high rates of tobacco consumption. They fail to mention that many of the low tax states also grow tobacco. The strong tobacco heritage of these states and the relative social acceptability of tobacco there easily account for the marginally higher consumption rates.

In fact, the smoking rates of the 10 states with the lowest cigarette taxes are not as significant as one is led to believe. On average, about 25% of adults smoke in the ten low tax states, compared to the national average of 22%. This is not a large difference, and is most likely explained by the heritage of tobacco growing, not taxes.

State taxable cigarette sales are a good indicator of patterns across states. Consider per capita sales in Massachusetts (77 packs/per year) versus per capita sales in New Hampshire (158 packs/ per year). Since cigarette taxes are significantly higher in MA (51 cents/pack) than in New Hampshire (25 cents/pack and no sales tax) this pattern would seem to buttress the assumption that higher taxes equal lower consumption. But is it reasonable to believe the NH residents really smoke double the amount of cigarettes compared to smokers in MA? The answer is clearly no. What is the reason for this discrepancy? Tax evasion.

New Hampshire is a well known consumer's mecca - a place for consumers from high tax states to stretch the family budget. A 1995 study by Price Waterhouse found that nearly 40% of New Hampshire's cigarette sales were sold to consumers from another state- mostly people from Massachusetts. In fact, along the MA-NH border the number of people employed (per 1000 of population) in tobacco, alcohol beverage, and gas retailing is about 2 times greater in New Hampshire compared to Massachusetts. When adjustments are made for such tax evading sales, adult smoking rates are practically the same in both states.

In Washington State, the same tax evasion dynamic is at work. Even though the Washington cigarette tax is very high, data shows that adult smoking rates are actually higher in Washington compared to low tax Oregon and Idaho. However, using taxable sales as an indicator, we see that Washington's per capita cigarette sales of 65 packs is much lower than in Oregon (95 packs) and Idaho (78 packs).

The reason?

Washington's residents have known for 20 years or more that the way to beat sales and excise taxes is to head for the Indian reservations, military bases, and bordering states. A recent study by Washington's Department of Revenue estimates that a staggering 27% of Washington cigarette sales represent such tax evading sales. When these tax evading sales are factored in, actual Washington cigarette consumption rises to over 85 packs per capita - close to the average per capita consumption for the Northwest.

The basic lesson is that when cigarette taxes are raised by a large amount, consumers take advantage of our fiscal federalism and shop in a state or tax free zone where they can save money. When the dust settles few people have

been dissuaded from smoking. Smokers simply shop where the tax is lower and respect for the law takes another step backward.

(A copy of the KPMG report has been provided for review by the committee.)

Correspondence Index

- I. Senator Drue Pearce, February 6, 1996
Supports SB 210
 - a. Ak. Adolescent Health Advisory Cmte.
January 30, 1996
Supports Tobacco Tax

- II. Alaskans For Drug-Free Youth
February 27, 1996
Supports HB 431
 - a. Why does Alaska need a tobacco tax
increase? February, 1996

- III. Alaska Native Health Board-Darleen Beltz
March 1, 1996
Supports HB 431

- IV. Alaska Health Education Consortium
January 23, 1996
Supports Tobacco Tax

- V. Mather and Associates, February 26, 1996
Supports Tobacco Tax

- VI. John Lyle, February 26, 1996
 - a. Doug Welton, Feb. 20, 1996
Supports "Alaska Card"

 - b. Frank Keim, Feb. 26, 1996
Supports Tobacco Tax

- VII. Sheila Finch, February 27, 1996
Supports Tobacco Tax

- VIII. Tobacco Prevention & Education Alliance
Kim Greer RN
Supports HB 431

- IX. Alaska Native Health Board, January 24, 1996
Supports Tobacco Tax
- X. Alaska Tobacco Control Alliance
January 29, 1996
Supports Tobacco Tax
- XI. The Tobacco Institute
Opposes HB 431
- XII. Howard Axtell, March 13, 1996
Opposes Tobacco Tax

Alaska State Legislature

During Interim:

716 West 4th Avenue, Suite 500
Anchorage, Alaska 99501-2133
(907) 258-8185
Fax (907) 258-0226

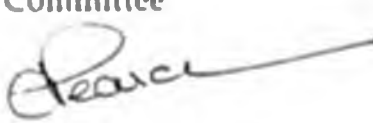
During Session:

State Capitol
Juneau, Alaska 99801-1182
(907) 465-4993
Fax (907) 465-3872

Drue Pearce
President of the Senate

Memorandum

To: Senator Bert Sharp, Chair
Senate State Affairs Committee

From: Senator Drue Pearce 

Date: 6 February, 1996

Re: Senate Bill 210 Bill Packet

In 1992 I sponsored legislation which called for a state plan for teen pregnancy prevention. Recognizing that teen pregnancy does not happen in isolation of other teen problem behaviors, the Alaska Division of Public Health examined this issue in the broader context of adolescent health.

An 18 member statewide Adolescent Health Advisory Committee was created to comprehensively examine Alaskan teens and their world. A statewide adolescent plan was released last year.

The committee is continuing to work to implement the recommendation laid out in the report. One function of the committee is to review and proactively address legislation that directly impacts Alaskan adolescents.

Attached is a letter sharing the position of the committee on Senate Bill 210. I respectfully request that you include the letter in the committee bill packet.

Thank you.

ALASKA ADOLESCENT HEALTH ADVISORY COMMITTEE

A Public and Private Partnership Advocating For Alaska's Youth

Adolescent Health
Advisory Committee

January 30, 1996

JAN 31 1996

Chairman
J. Dana Bowman, Ph.D., M.D.
Alaska Native Medical Center
Anchorage

Senator Druce Pearce
Room #111
Juneau, AK 99801

Arnette Barton, M.S.
Alaska Work Programs
Fairbanks

Dear Madam President:

Tom Begich
Alaska Juvenile Justice
Advisory Committee
Anchorage

The Alaska Adolescent Health Advisory Committee (AHAC) recently gathered in Anchorage to review legislation being proposed during the 19th Session's '96 year. One of the primary functions of the AHAC is to encourage the initiation of public policy which research convincingly shows will enhance the general health and well-being of Alaska's teens. We conclude that it is in the best interest of Alaska's adolescents and their general health to support, in concept, ~~SB 210~~ *An Act relating to taxes on cigarettes and tobacco products.*

Vito Capry, B.S.
Teacher
Ketchikan Anchorage

The committee has created a comprehensive adolescent health plan which has previously been sent to you for reference. The plan recommends that Alaskans focus on the Prevention and Early Intervention of problems before they arise, as well as points out the negative impacts of the high cost associated with treatment of problem behaviors. To this end, we support the \$1.00 a pack tobacco increase for the following reasons:

Mike Corbill, Post Sergeant
Alaska State Troopers
Fairbanks

Cindy Gamble, MPH
Southwest Alaska Regional
Health Consortium
Craig

Tax increases in Canada and California significantly reduced tobacco consumption by teens. Canada, with a substantial increase in the REAL cost of tobacco, saw their teenage tobacco consumption rate drop considerably. If the tobacco tax is increased Alaska can expect to reduce tobacco consumption among teens.

Kathy Orban, B.S., C.H.E.S.
Public Member
Anchorage

Tobacco is a "gateway" drug. Research shows that teens who use tobacco products are significantly more apt to experiment with illicit drugs and alcohol than teens who abstain.

Elizabeth Hatten, M.D.
Children's Clinic
Anchorage

Sharon Kohring, B.S.
Valley View Pregnancy Center
Walla

Tobacco is a public health problem. Alaska has the 6th highest rate of smoking in the nation. While tobacco use is a concern in urban areas, the statistics for consumption in rural Alaska are significantly higher.

Martha Lyman, L.C.S.W.
Mental Health Clinic
Tulita-Kookoovik
Health Corporation
Bethel

Lee Curry-Ludden
Kuskoquim Tribe, JLA
Kana

Lorraine Mae
Student
Anchorage

Helen Melikian, B.S., C.H.E.S.
Department of Education
Juneau

The AHAC is aware the tax levy proposed in SB 210 can not be dedicated to other than school construction and facilities. However, the AHAC believes it is in the best interest of Alaska's teens to use the revenue generated from the tax to promote tobacco abstinence and tobacco cessation programs around the state. The committee recommends that the tax levy be amended to allow dedicated tobacco tax revenues to be used to fund programs which support broad based health promotion initiatives.

Mary O'Brien, R.N., B.S.N.
Juneau Public Health Center
Juneau

Kimberly O'Connor
Norton Sound Health Corporation
Nome

For more information on the Adolescent Health Plan and the rationale behind our support of the concept of SB 210, please call either Mike Corbill (451-5316) or Sharon Kohring (373-3456).

Derek Peterson, M.Ed.
Association of Alaska
School Boards
Juneau

Sincerely,

Lee Page, B.A.
First National Bank of Anchorage
Anchorage



Leo Tubbs, M.H.A., C.H.E.S.
Public Member
Walla

J. Dana Bowman

Dean Wagon, M.P.A.
Public Member
Anchorage

Cal Williams
AFFECT
Anchorage

⁰⁵
* Information and statistics quoted above were taken from public notices distributed by the Alaska Tobacco Control Alliance

Alaskans For Drug-Free Youth

2509 Tongass Avenue
Ketchikan, AK 99901
(907) 247-2273

February 27, 1996

The Honorable Bert Sharp
The Alaska Senate
Post Office Box V
Juneau, Alaska 99811

Dear Senator Sharp:

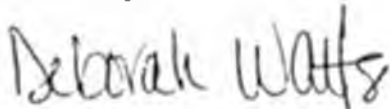
I am writing on behalf of Alaskans for Drug-Free Youth to ask you to support legislation calling for \$1 per pack increase in state cigarette taxes, with a similar increase in taxes on smokeless tobacco.

The mission of Alaskans for Drug-Free Youth is stated in our name. We believe that drug addiction and drug abuse among children and adolescents is a tragedy not only for them and their families, but for all of us.

As I'm sure you know, tobacco use is the leading cause of death in Alaska. Use of tobacco almost always starts during adolescence or childhood. The most recent Youth Risk Behavior Survey in Alaska found that one out of five ninth graders in the state are frequent smokers. Other studies tell us that one-third of these children will eventually die from a smoking-related disease, many of them before the age of 60.

This suffering and death does not have to happen. Increasing tobacco taxes is one of the most important things we can do to prevent kids from falling victim to the tobacco industry. Please recognize that this is a health issue more than a tax issue, and lend your support to pass a major tobacco tax increase in the legislature this session. The vast majority of Alaskans (according to a recent survey) will thank you for it.

Sincerely,



Deborah Watts
Executive Director

P.S. I am enclosing a page from a recent newsletter published by the American Cancer Society of Alaska. I thought you might be interested to read some of the testimony given at the first committee hearing for H.B. 431, one of the tobacco tax bills.

Why does Alaska need a tobacco tax increase?

The following comments are excerpts of testimony provided at the first hearing for H.B. 431 in the House HESS Committee February 2.

REP. CON BUNDE (sponsor): Cigarettes killed my mother. But in that era, when my mother began smoking, cigarettes were considered sexy, they were considered sophisticated... I'm very concerned that the media blitz from the tobacco industry today is expanding so that young people in our society are going to fall into the same trap that my mother fell into.



Representative Con Bunde

Obviously adults don't start smoking; children do. Annually, 3,000 children in the United States start smoking every day. Of those, approximately one-third will die from tobacco-related illness.

House Bill 431 is about prevention. It's about an economic barrier. As the price of cigarettes and tobacco products increases, many young people won't start smoking and others who already smoke will be encouraged to quit. As a matter of fact, I've talked to adults who have told me that a price increase will push them over the edge and encourage them to quit.

DAVID SWEANOR (international tobacco tax expert from Canada): When we started working on increasing tobacco taxes in Canada, a little over ten years ago, virtually all of our work was based on research done by economists and academics in the United States, who said that though there is a range of fac-

tors that affect consumption, price is probably the most significant, and certainly the most significant of anything that is within the realm of the "do-able."

And what we saw happen in Canada is that as our prices went up, teen tobacco consumption plummeted. At the beginning of the 1980s, we had over 40% of 15 to 19-year-olds in Canada smoking every day. By the beginning of the 1990s, that had fallen to about 16%. It was just a dramatic drop. Teen tobacco consumption fell about 60%, and adult consumption fell about 40%.

Over the last 30 years, the fact that tobacco taxes have been able to fall in real terms means that that revenue had to come from somewhere else. And whether it's fees that are charged for government services, or higher property taxes that make it harder for people to get homes, to raise a family... there's something else that's been going on.

In the case of tobacco use, there's a very strong case for saying we want to discourage this, we want to prevent our children from starting to use a product that medical science tells us will result in the deaths of half of all its long term users. Taxation is something that works.

ARLISS STURGULEWSKI (former state senator): I hope you'll allow me to share a personal story. I'm a very heavy ex-smoker. My two sisters-in-law and I were in our late teens when World War II ended. We all started to smoke and we were soon very truly and completely hooked. I was up to two and a half packs a day when I was pregnant with my son. And so I had a son who was small, and he was born with lots of upper respiratory problems. I think the first words he ever said to me were, "Mama, you stink." And I quit only because I got really ill with pneumonia.

My sisters-in-law were not quite so lucky. I can't believe what they went through. They tried prayer, acupuncture, patches, clinics... They could not quit their smoking. We buried one of my sisters-in-law this year. The other one is now going to a clinic where they are teaching her to breathe with what she has left of her lung capacity.

Tobacco taxation is often referred to

as a sin tax, and frankly, I don't think of it that way. I think of a tobacco tax as a health tax...

As a past politician, I would think that you who are going to be running again would be delighted to have the percentages supporting you that do support



Arliss Sturgulewski

passage of this legislation. It's very popular with the public, and that cuts across a very broad spectrum. So I would ask you to consider supporting this legislation. It is really excellent public policy.

ELLEN FARLEY, MD (family physician in Juneau): In my work, I see smokers as individuals. And I see them suffering. They have poorer health, they're less productive, they have a poorer quality of life in old age—if they get any old age. And it's my own personal belief that they suffer a kind of insidious erosion of self-esteem, similar to what we see with other kinds of addictions. And I think that that's an intangible cost to Alaska.

Focusing on prevention is the responsible thing to do and it's also the compassionate thing to do. Research has shown that there are multiple contributing factors in the establishment of a new smoker. And it takes multiple and usually combined approaches to help people quit smoking and to prevent starting smoking.

But I think that as a single action, increasing taxes on tobacco is the most powerful thing that we can do. It's a very effective tool that you can use right now to reduce smoking-related suffering by Alaskans now and far into the future.

URGENT MESSAGE

TO: Jeannette A. James, Gail Phillips, Scott Ogun, Joe Green, Ivan M. Ivan, Brian Porter, Caren Robinson, Edward C. Willis, Bert Sharp, Randy Phillips, Loren Leman, Dave Doniey, Jim Duncan, Con Bunde

NAME: DARTEEN N. BELTZ

MAILING ADDRESS: 508 N. FLOWER

ANCHORAGE, ALASKA 99508
City State Zip

DAY PHONE: 337-0028

BILL (HOUSE BILL 431) AND OTHER TOBACCO BILLS

MESSAGE:

I AM IN SUPPORT OF INCREASING THE TAX ON TOBACCO. TAXING TOBACCO SAVES LIVES
PROTECT OUR CHILDREN. INCREASE THE TAX BY \$1.00 PER PACK. NOW IS THE TIME
TO RESPOND AND SUPPORT THIS BILL. THERE ARE MORE YOUTH BECOMING ADDICTED.
ALASKA HAS ONE OF THE HIGHEST SMOKING PREVALENCE RATES IN THE NATION.
EACH YEAR, SMOKING KILLS MORE ALASKANS THAN AIDS, AIRCRAFT CRASHES, ALCOHOL
FALLS, FIRES, FIREARMS AND MOTOR VEHICLE CRASHES COMBINED.
1992-1994 THERE WERE 1402 SMOKING RELATED DEATHS IN ALASKA (EST)

Signature: *Darteen N. Beltz*

Date: 3.1.96

URGENT MESSAGE TO LEGISLATURE

TO: EACH AND EVERY LEGISLATOR

NAME: DARLEEN N. BELTZ

MAILING ADDRESS: 508 N. FLOWER

ANCHORAGE, ALASKA 99508
City State Zip

DAY PHONE: 337-0028

BILL (HOUSE BILL 431) AND OTHER TOBACCO BILLS

MESSAGE:

ONE IN 5 DEATHS IN ALASKANS ARE DUE TO TOBACCO: MORE THAN ANY OTHER CAUSE.

MORE ADULTS AND KIDS USE TOBACCO IN ALSKA THAN NEARLY ALL OTHER

STATES. TAXES HELP PREVENT KIDS FROM STARTING. PROTECT KIDS: INCREASE

TOBACCO TAXES TO \$1.00 A PACK.

Signature: *Darleen Beltz*

Date: 3.1.96



P.O. Box 100563, Anchorage, Alaska 99510

January 23, 1996

Senator Bert M. Sharp
Alaska State Legislature
State Capitol (MS3100)
Juneau, Alaska 99801-1182

Dear Senator Sharp:

I am writing on behalf of the Alaska Health Education Consortium (AHEC) to urge your support for legislation to raise Alaska's cigarette tax to \$1.00 per pack or higher, with a comparable increase in taxation on other tobacco products.

AHEC is a statewide organization comprised of persons interested in promoting health and preventing disease and premature death in Alaska through education and prevention efforts. Although education is an important part of these efforts, experience shows that public policy is a critical component of any tobacco control program.

Enclosed is a copy of a resolution adopted by AHEC members in November, 1995 which states our position on the taxation of tobacco products. Taxation, in particular, has been shown to be the single most effective strategy to reduce tobacco consumption, especially among kids. 84% of Alaska adults began smoking between the ages of 10 and 20 years. And of course, preventing nicotine addiction in kids is the key to ending the epidemic of tobacco-related disease which now claims the lives of one out of five Alaskans.

Tobacco taxation represents a win-win-win situation for the legislature - simultaneously raising revenue, preventing drug addiction and early death, and winning public approval. (A recent survey showed that almost three-fourths of Alaskans support a \$1.00 per pack increase in the state cigarette tax.)

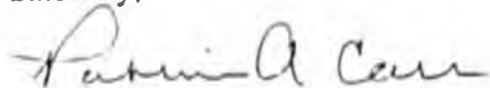
Alaska now has one of the highest rates of smoking and smoking related death rates in the country, but our tobacco taxes are below the national average. We hope you will consider your obligation to protect and promote the public health, and support the tobacco tax legislation as a way to reduce the leading cause of death in Alaska. Please contact either of

KNOWLEDGEABLE CHOICES FOR OPTIMUM HEALTH

AHEC
Page 2.

us if you would like additional information on AHEC, its support of taxation as a means of raising the cost of tobacco thereby decreasing use, or the resolution.

Sincerely,



Patricia A. Carr, Chair
Advocacy and Resolutions Committee
(907) 789-4938



Michele A. Hansen
President
(907) 344-6889

Enclosure: Resolution

Alaska Health Education Consortium

RESOLUTION TITLE: Tobacco Prevention and Control 1/4/96

Whereas, tobacco use is the single most preventable cause of premature death and disease in the United States;

Whereas, tobacco use and exposure to environmental tobacco smoke is a major risk factor for diseases of the heart and blood vessels, chronic bronchitis and emphysema, cancers of the lung, larynx, pharynx, oral cavity, esophagus, pancreas, and bladder, having low birth babies, and other problems.

Whereas, tobacco use accounts for over 400,000 deaths each year in the United States.

Whereas, in Alaska, 19% of the 2,076 deaths in 1991 were smoking related.

Whereas, in Alaska, the estimated total cost attributed to smoking in 1991 was 127.6 million for persons age 35 and older. Of this 45.6 million was for direct health care costs.

Whereas, Alaska has one of the highest smoking rates in the nation (ranking in the top 6) and 26% of Alaskan adults smoke cigarettes and 5% of Alaskan adults use smokeless tobacco.

Whereas, the health of Alaska Natives is particularly at risk from smoking and 43% of Alaska Native adults smoke and 11% of Alaska Native adults use smokeless tobacco.

Whereas, Alaskan adolescents, particularly females and those living in rural communities report high rates of smoking (up to 31% reporting smoking daily) according to the 1989 Adolescent Health Survey.

Whereas, in the United States 20.4% of males in grades nine through twelve use chewing tobacco.

Whereas, approximately 3,000 children a day in the United States smoke their first cigarette.

Whereas, nearly 84% of Alaskan adults started smoking between the ages of 10 and 20 years old and few adults begin to smoke after the age of 21.

Whereas, U.S. epidemiological studies have concluded that increasing cigarette taxes should significantly reduce the number of teenagers who smoke and that for every 1 percent increase in the price of cigarettes, 4 percent fewer teenagers would take up smoking.

Whereas, increasing tobacco taxes as a way of raising the price of cigarettes is an accepted public health strategy that has proven success in Canada and in other states.

Therefore, be it resolved that the Alaska Health Education Consortium supports policy that improves the public health by raising the price of tobacco in order to discourage children and youth from starting to use tobacco products and to encourage adults to quit or decrease their use of tobacco.

MATHER AND ASSOCIATES

1569 NORTHFIELD RD. • FAIRBANKS • ALASKA 99709
PH. (907) 455-6942

FAX (907) 455-7391
e-mail 75450.1106@CompuServe.com

February 26, 1996

Senator Bert Sharp
State Capitol
Juneau, AK 99801

Dear Senator Sharp:

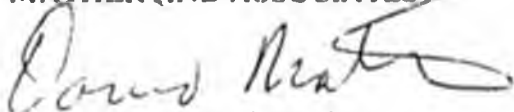
As a member of the Alaska Public Health Association, a concerned citizen, and a parent of two young children, I strongly urge you to schedule a hearing for the tobacco tax bills as soon as possible.

Tobacco is the only legal product that kills when used exactly as intended, and most new consumers are children. I know that every day, 3,000 children smoke their first cigarette and eventually 1,000 will die from a tobacco related disease. I am convinced that increasing the price of tobacco will result in reduced consumption among Alaska's children.

Please help reduce the unnecessary death and disease caused by tobacco use by supporting an increased tobacco tax.

Sincerely:

MATHER AND ASSOCIATES



David T. Mather, Dr. P.H.
President.

Dear Bert,

Jill Lyle
Box 83715
FBKS AK.
99708

Please read these two pieces from the Fairbanks paper of 2/26/96. Both are advocating sound policy. I suggest you work on tougher taxes on tobacco. I agree that \$3-7 increases/pack would be effective in reducing #'s of new + current smokers.

I also feel we as Alaskans should stop letting out of states (and AK residents) off the hook re: 3% sales taxes. That's fair. I hope you're openminded enough to seriously consider these two articles & respective points of view. Jim-

Tax tobacco into oblivion

Kids buy smokes far too cheaply

By FRANK KEIM

There's no doubt about it, it's getting worse. Teen-agers out here in the villages seem to be taking up the habit in droves. And it sickens me to see it happen!

I'm talking about cigarette smoking, of course, in villages on the Lower Yukon Delta.

I've been a teacher on the Delta for 16 years, and it saddens me when I smell my students come to class in the morning or after lunch with that tell-tale odor all over their clothes and hair. And it doesn't do any of us any good for me to get on their case about it.

As their teacher, I can only present them with the information which will hopefully allow them to make up their minds to want to quit. And many of them have made that decision, to at least want to stop smoking. But they are somehow never able to take the final step. It's just too easy not to, and too cheap!

Some students, after viewing news segments on chemistry teacher Jeffrey Wigand, who is catalyzing some real legal action against the cigarette industry, seem even more determined to quit. They blame cigarette companies for victimizing them, for selling them a bill of goods. And they really don't want to patronize that kind of crooked industry.

But, again, when it comes right down to it, they can't make the decision to just say no! Older brothers and sisters and parents don't help when they smoke like chimneys themselves, and even surreptitiously buy the cigarettes for their teens. The situation is almost ritualized and could be likened to a Culture of Nicotine.

Statistics bear that out. More than 50 percent of Alaska Native men smoke cigarettes, twice the rate for Alaska men in general. More than 40 percent of Alaska Native women smoke, also twice

Statistics bear that out. More than 50 percent of Alaska Native men smoke cigarettes, twice the rate for Alaska men in general. More than 40 percent of Alaska Native women smoke, also twice the rate of the general population of Alaska women—with the expected drag on the health care system and the higher morbidity and death rates.

Guest Opinion

the rate of the general population of Alaska women—with the expected drag on the health care system and the higher morbidity and death rates.

My message to my students during any discussion of drug abuse is that since nicotine is such a lethal addictive drug, especially in the form of a cigarette delivery system, they can only expect a short life replete with a wracked body and wretched health. The can plan on a life where if they do have any children, they are sure not to see their grandchildren for very long.

Expectedly some don't seem to care since it is so much a part of the Culture of Nicotine promoted by the cigarette companies in their ad campaigns and abetted by the society at large, in particular by our state and local governments.

Since this is the reality, our approach to any solution should be realistic. I don't feel that outlawing all smoking is a good idea. It would only increase the size and wealth of the mafioso black market. And it would further bankrupt the court and prison systems as trivial marijuana arrests are doing.

So we're left with a combination of hiking the price of a legal product, primarily through taxa-

tion since we can't expect the corrupt industry to do it, and getting tough on those who make it available to minors—and I mean really tough with some very stiff sentences! Of course, all vending machines would have to go.

Now, Alaska does indeed have the lowest cigarette tax in the land, and I do agree that it must be raised to the highest tax. But a dollar! Give me a break! This is not going to induce the average addicted teen out here in the villages, or anywhere in Alaska, to drop the smoking habit altogether.

However, if you're talking a \$3 tax, or more, like in Canada, where you have a proven correlation between the cost of the product and dropping the habit, well then, maybe we could expect some real behavior change. Even more important, if cigarettes were \$7 a pack, we would see definitive second thoughts on the part of most young people before they even put a cigarette in their mouth. A dollar tax would only be a half-measure, and perhaps even a cynically motivated act on the part of our legislators. They keep the tax low enough for addicted teens to continue their vice and they pick up tens of millions of dollars with which to build new roads we don't really need in Alaska.

To those in Juneau, I say, think again!

Frank Keim is a teacher in Marshall, Alaska.

Better ideas

Feb. 20, 1996

To the editor:

For months now I've been tossing around the idea of how the state can make money without more taxes and user fees strapped to us Alaskans.

Well, here it is: The "Alaska Card."

You get an application when you get your Permanent Fund dividend application, and if you qualify as a "real Alaskan" then you don't pay the, say, 3 percent sales tax, or say a 3 percent state income tax. (Or it could be prorated—the longer you've been here, the less you pay.) Of course, like on the sales tax, you could voluntarily pay at the counter and not even use your card.

It's simple, we start making millions from the tourists, seasonal businesses, and migrating workers.

I'd even like to see it get you a 10 percent discount at stores (just like the military people get). Wouldn't that be nice?

Hell, this state caters to everybody but our own.

And frankly, I'm tired of paying their way.

Here's another idea that I know makes sense and surely lots of jobs, opportunity and money.

In my mind, the best way to create commerce is to open up the land. We can do that by connecting our five major highways to each other.

It's silly (and unprogressive) for all our roads to dead-end. We've got to connect Eagle to Chena Hot Springs Road to the Steese to the Elliott to the Parks to the Richardson to the Sterling. See what I mean. And we've got to run electricity along all our highways too, at least extend them a few miles per year until we're all connected.

It seems like such a waste of land and resources to not open this country up. And to start building our future on more than oil and government.

Please write me if you've got a better idea or can add to mine.

Doug Welton
6810 Steese Highway
Wetown, AK 99712

February 27, 1996

Senator Bert Sharp
Room 514
State Capitol
Juneau, AK 99801-1182

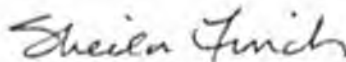
Dear Senator Sharp:

As a mother of a young man who smokes, I cannot urge you enough to increase the tobacco tax. Although he knows, after smoking for almost 3 years, that smoking is harmful, he is addicted. It was peer pressure which encouraged my son to start smoking. I got to the point where I would only give him enough lunch money for each day, so he had to choose whether to eat or smoke.

The thought of my son dying from cigarettes is devastating, at the least. I have tried every tactic I know to get him to change his mind about smoking. Now that he is 19, he actually would like to stop. Only he's addicted and the necessity to quit due to a catastrophic illness hasn't happened. I can only hope and pray he quits soon.

Please schedule a hearing to increase the tobacco tax. I would like to see a \$2/pack tax. The money could be used to pay for all the smoking related illnesses.


Sincerely,



Sheila Finch
P.O. Box 81988
Fairbanks, AK 99708

Dear Senators and Representatives,

Enclosed you will find the signatures of the Homer South Peninsula Hospital Service Area Board, South Peninsula Hospital Operating Board, and South Peninsula Hospital Medical Professional Staff. These resolutions voice a strong support for ^{Issue} Bill 431. As you will read, it is a health issue that effects everyone in Alaska. We have some of the most astounding statistics when it comes to smoking-related disease. Please consider this bill, not for political reasons, but for the sake of our children's health and future. Listen to the voices of the people. It is the majority of Alaskans that support this tax.



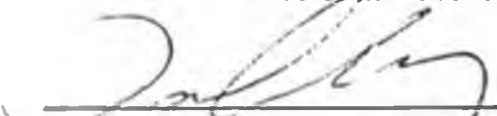

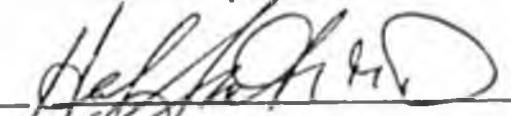
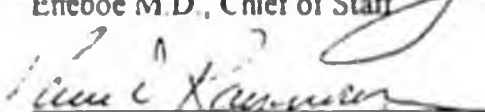
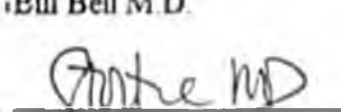
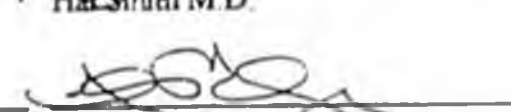

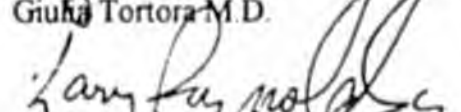
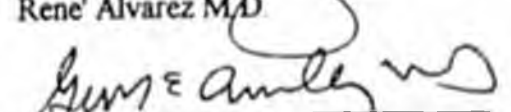
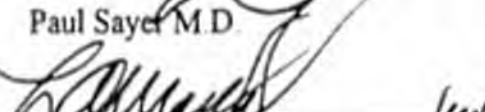
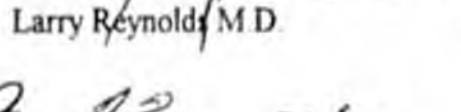
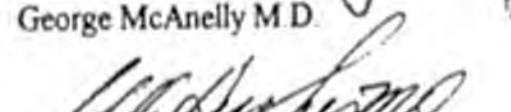
Kim Greer RN
Tobacco Prevention & Education Alliance
c/o South Peninsula Hospital
4300 Bartlett St
Homer, Alaska 99603
235-0227



SOUTH PENINSULA HOSPITAL

4300 BARTLETT • HOMER, ALASKA 99603 • (907) 235-8101

- Whereas, tobacco is the leading cause of preventable death in the country,
- Whereas, tobacco kills 1 out of 5 Alaskans;
- Whereas, Alaska has the 28th lowest state tobacco excise tax but ranks sixth among smoking rates in the country,
- Whereas, eighty-four percent of Alaskan adult smokers started smoking between the ages of 10 and 20,
- Whereas, fifty-four percent of high school males have used smokeless tobacco,
- Whereas, smokeless tobacco causes cancers of the gums, mouth, pharynx, larynx, and esophagus,
- Whereas, direct health costs associated with smoking-related diseases burdened the Alaskan economy by 45.6 million in 1991;
- Whereas, smokers use 50% more sick leave and use the health care system 50% more than non-smokers,
- Whereas, Alaskan Natives suffer disproportionately from the burden of tobacco addiction and illness,
- Whereas, low income populations benefit greatly from reduced smoking rates by freeing wage earners from disease and decreasing the economic burden of illness;
- Whereas, higher tobacco prices have proven effective in reducing tobacco consumption particularly among youth,
- Whereas, it is the responsibility of the state government of Alaska to do everything in its power to blunt the negative impact of tobacco on the health of our citizens;
- Therefore, be it resolved that the South Peninsula Hospital Medical Professional Staff supports a significant increase in the Alaska state excise tax on cigarettes and on other tobacco products.

 Eneboe M.D., Chief of Staff	 Bill Bell M.D.	 Hal Smith M.D.
 Paul Raymond M.D.	 Giulia Tortora M.D.	 Rene Alvarez M.D.
 Paul Sayer M.D.	 Larry Reynolds M.D.	 George McAnelly M.D.
 Larry Marshburn M.D.	 Thomas Wells, M.D.	 Clancey Hughes, M.D. Guest Physician

SOUTH PENINSULA HOSPITAL

4300 BARTLETT • HOMER, ALASKA 99603 • (907) 235-8101

Whereas, tobacco kills over 400,000 Americans each year, more than alcohol, car accidents, suicide, homicide, AIDS, heroin and cocaine combined;

Whereas, children and teenagers nationwide constitute 90% of all new smokers;

Whereas, smokers have twice as many job-related accidents, 50% more sick leave and use the health care system 50% more than non-smokers;

Whereas, Alaska has the sixth highest rate of smoking, and the sixth highest rate of smoking-related death in the U S

Whereas, smoking-related death and disease cost the Alaska economy \$127 6 MILLION DOLLARS in 1991;

Whereas, 84% of Alaskan adult smokers started smoking between the ages of 10 & 20,

Whereas, approximately one-third of all children who become smokers will eventually die from smoking related diseases;

Whereas, higher tobacco prices have proven effective in reducing tobacco consumption, particularly among youth;

Whereas, the United States has the lowest cigarette taxes of any developed nation in the world;

Therefore: be it resolved that South Peninsula Hospital Service Area Board of Directors encourages the Alaska state legislature to enact a significantly higher state excise tax on cigarettes and other tobacco products, and calls upon all health care providers to join in supporting these efforts and activities to help prevent tobacco consumption among Alaska's youth.

SOUTH PENINSULA HOSPITAL SERVICE AREA BOARD



Chairperson

ATTEST:



(Vice-Chair)

SOUTH PENINSULA HOSPITAL

4300 BARTLETT • HOMER, ALASKA 99603 • (907) 235-8101

Whereas, tobacco kills over 400,000 Americans each year, more than alcohol, car accidents, suicide, homicide, AIDS, heroin and cocaine combined;

Whereas, children and teenagers nationwide constitute 90% of all new smokers;

Whereas, smokers have twice as many job-related accidents, 50% more sick leave and use the health care system 50% more than non-smokers;

Whereas, Alaska has the sixth highest rate of smoking, and the sixth highest rate of smoking-related death in the U.S.

Whereas, smoking-related death and disease cost the Alaska economy \$127.6 MILLION DOLLARS in 1991;

Whereas, 84% of Alaskan adult smokers started smoking between the ages of 10 & 20;

Whereas, approximately one-third of all children who become smokers will eventually die from smoking related diseases;

Whereas, higher tobacco prices have proven effective in reducing tobacco consumption, particularly among youth;

Whereas, the United States has the lowest cigarette taxes of any developed nation in the world;

Therefore: be it resolved that South Peninsula Hospital Inc. Operating Board of Directors encourages the Alaska state legislature to enact a significantly higher state excise tax on cigarettes and other tobacco products, and calls upon all health care providers to join in supporting these efforts and activities to help prevent tobacco consumption among Alaska's youth.

SOUTH PENINSULA HOSPITAL, INC


Chairperson

ATTEST


(Vice-Chair)



Alaska Native Health Board

1345 Rudakof Circle, Suite 206
Anchorage, Alaska 99508-6105

Phone: (907) 337-0028
FAX: (907) 333-2001

January 24, 1996

The Honorable Bert Sharp
The Alaska Senate
Post Office Box V
Juneau, Alaska 99811

Dear Senator Sharp:

I am writing on behalf of the Alaska Native Health Board to urge you to support legislation to enact major increases in state tobacco tax rates. This goal is ANHB's number one state legislative priority for FY 1997.

Alaska Native people are hard hit by tobacco use. A recent DHSS bulletin reports that smoking kills one out of five Alaskans, and that Alaska Natives account for 23.2% of the smoking-related deaths, even though our people comprise only 16.5% of the state's population. Diseases caused by tobacco use result in tragedy for individuals and families and place a tremendous drain on health care resources.

Although some will argue that tobacco taxes are regressive, we believe that the potential benefit far outweighs the harm. Research has shown that a major tobacco tax increase is the single most effective way to reduce tobacco consumption, especially among kids. The National Cancer Institute has said that "increasing tobacco excise taxes must be considered an essential and primary component of any comprehensive tobacco control program."

We urge you not to let the tobacco tax question get mired in debate about how to deal with the fiscal gap. A major increase in tobacco taxes would be justified even if there was no fiscal gap. The Alaska Constitution states that "the legislature shall provide for the promotion and protection of public health." We hope you will take this commitment seriously and increase tobacco taxes as a way to reduce the leading cause of death in Alaska.

Sincerely,

Anne M. Walker
Executive Director

ALEUTIAN PENINSULA ISLANDS ASSOCIATION
BARSTOW AREA HEALTH CORPORATION
CHUGACHAULT
COPPER RIVER NATIVE ASSOCIATION

COASTAL AREA NATIVE ASSOCIATION
MAYHEAD ASSOCIATION
METLAKATLA INDIAN COMMUNITY
NORTH SLOPE BOROUGH
NORTON SOUND HEALTH CORPORATION

SOUTH ALASKA NATIVE ASSOCIATION
SOUTHEAST ALASKA REGIONAL HEALTH CORPORATION
TANANA CHIEFS CONFERENCE
YUKON RUSKONWIM HEALTH CORPORATION

Knowles proposes tax hike

Tobacco, alcohol levies would soar

By RALPH THOMAS
Daily News reporter

JUNEAU — Alaskans would pay the nation's highest "sin taxes" on tobacco and alcohol under proposals by Gov. Tony Knowles and others to help balance the state budget.

If the proposals become law, the state tax on each pack of cigarettes would soar from 29 cents to \$1.29 and the tax on chewing tobacco would quadruple. The taxes on wine and beer would more than triple to about 10 cents for a bottle of beer or glass of wine. For hard liquor, the tax would grow by more than 50 percent to about 7 cents for a mixed drink.

Heeding advice from a bipartisan budget commission, Knowles recently proposed the tax hikes as part of the first step in closing the state's so-called "fiscal gap" — a perennial budget shortfall expected to top \$500 million next year. Along with a 14-cents-a-gallon fuel-tax hike that Knowles is proposing, the increases would raise an

SIN TAX: Knowles follows revenue advice

Continued from Page A-1

estimated \$100 million a year.

But Knowles and others contend raising taxes on tobacco and alcohol will do more than just help fix the budget. They say higher taxes will reduce tobacco and alcohol use, especially among teenagers. Anti-smoking groups predict a \$1-a-pack increase in the cost of cigarettes would reduce teen smoking by more than a third.

"We call them health taxes," said Anne Marie Holen, who runs an anti-smoking program for the Alaska Native Health Board.

Tobacco industry officials say the tax hikes will not have the health benefits proponents predict. And liquor industry representatives argue that only a small percentage of drinkers abuse alcohol.

"It seems unfair to punish the vast majority of people for problems created by a small minority," said Bob Esterling, president of the Alaska Wine and Spirits Wholesalers Association.

The alcohol and tobacco tax increases were originally proposed by the Long Range Financial Planning

Commission, a panel Knowles and the legislature's Republican leaders appointed last year to find solutions to the fiscal gap.

GOP leaders had initially balked at introducing legislation to implement the commission's tax increases, arguing the Democratic governor should have to sponsor the measures himself. But House Speaker Gail Phillips said Friday the Legislature would introduce the tax-hike bills today.

Getting the increases into law, however, will be no easy feat for Knowles. The tobacco and alcohol industries have hired at least eight lobbyists in Juneau. And Republican lawmakers have all but ruled out any new or increased taxes until state spending has been sharply reduced.

The tobacco industry contributed \$28,600 to state candidates in the last election cycle, while liquor interests donated almost \$78,000, according to candidate reports compiled by the Daily News.

The proposed tobacco and alcohol-tax increases would put Alaska's rates far above the rest of the states. That's especially true for the cigarette tax, which would jump nearly

50 cents per pack above Washington state's rate, currently the nation's highest.

Anchorage voters last year overwhelmingly agreed to increase the local tobacco tax, but rejected a proposed alcohol tax hike. And some Republicans predict that, if the Legislature approves any tax increases, it will be on tobacco.

"Because of the health aspects, it's probably the one that sells the most easily," said Senate President Drue Pearce, R-Anchorage, who accepted \$2,500 in tobacco contributions in 1993 and 1994.

Alaskans are among the heaviest smokers in the country, according to state and federal statistics. In a recent report, state health

Please see Back Page, SIN TAX

of budget balancing commission

officials said more than one in four adults smoke in Alaska and 20 percent of all deaths in the state during the past two years were "smoking related." The rates are even higher for Alaska Natives.

"Each year, smoking kills more Alaskans than AIDS, aircraft crashes, alcohol, falls, fires, firearms and motor vehicle crashes combined," the report said.

Several health groups, including the Alaska chapters of the American Lung Association and the American Cancer Society, have teamed up with the Alaska Native Health Board to push the tobacco-tax increase.

The groups are armed with studies that show how increased tobacco tax-

es have dramatically reduced smoking — especially among teenagers — in other states and countries. In Canada, for instance, where higher taxes increased the price of tobacco by 158 percent over 12 years, teenage smoking dropped by two-thirds, according to the American Cancer Society. However, organized cigarette smuggling became a significant problem for authorities.

"There's probably no other measure the Legislature could pass that would do more to improve the health of Alaskans," Holen said.

Tobacco industry officials don't dispute that higher taxes will lower teen smoking, but say the drop will be nowhere near

what proponents predict.

"You have to realize, these are kids who will pay 15 bucks for a CD and 100 bucks for a pair of tennis shoes," said Walker Merryman, vice president of The Tobacco Institute in Washington, D.C. "I'm not sure an extra buck a pack is going to stop them from smoking."

The best way to combat teen smoking enforce laws already on the books that prohibit cigarette sales to minors, Merryman said.

Rep. Mark Hanley, R-Anchorage, agreed.

"I think taxes generally are to raise revenue, not affect social behavior," said Hanley, who accepted \$700 in contributions from Phillip Morris in 1993 and 1994.

But, in his annual budget speech to the Legislature earlier this month, Knowles made it clear his proposed tobacco tax increase was aimed as much at reducing teen smoking as at closing the fiscal gap.

"Although it's projected to generate \$42 million, frankly, I hope this proposal doesn't raise a single dollar," said Knowles, who didn't get any tobacco money for his election, but received nearly \$16,500 from liquor interests.

New taxes not the answer

I could believe the headline, "Fiscal crisis real, say top businessmen," on the front page of the Daily News (Jan. 17). But I could not believe what I read in the article.

This coalition of business leaders (Alaskans for a Plan) plans to spend nearly \$600,000 on a statewide television, radio and newspaper advertising blitz to convince the Alaska public that they need to tolerate a new tax and smaller dividends in order to avoid a financial abyss.

I do not know what kind of businesses these leaders run, but it must be a state-funded business. If I owned a business (which I do not, because I am taxed so heavily I can't afford to start one), the last thing I would want to do is have the people taxed more, which would reduce their buying power.

Companies, especially in today's business climate, do not invest in anything that will not benefit the companies. This leads me to believe that these companies went to the state and made a deal something like this: If we convince the people of this state to accept new taxes and reduced dividends, will you leave us alone and possibly reduce our taxes? And the state said yes!

Don't get me wrong; I believe companies should have tax breaks as incentive to invest and produce jobs.

If these business leaders want the politicians in Juneau to fix the so-called "fiscal gap" without fearing for their political necks next fall, they should be convincing the politicians to cut wasteful spending, not convincing the Alaska public to accept new taxes.

— Doug Vaughn
Anchorage

ALASKA TOBACCO CONTROL ALLIANCE

Post Office Box 110614

Juneau, AK 99811-0614 • 907/465-3140 Fax: 465-2770

Alaska Tobacco Control Alliance

Resolution to Support an Increase in the Tobacco Tax

STEERING COMMITTEE:

Alaska Black Caucus

Alaska Dental Society

Alaska Health Fair, Inc.

Alaska Native Health Board

Alaska Pharmaceutical
Association

Alaska Public Health Association

Alaska State Medical Association

Alaskans for Drug Free Youth

American Lung Association of
Alaska

Anchorage School District

Bristol Bay Area Health
Corporation

K.D. Consulting

Municipality of Anchorage,
Department of Health and
Human Services

Nome Community Center/
Young Teen Center

Rural Alaska Community Action
Program

Sitka Teen Resource Center

State of Alaska Department of
Health and Social Services:
Division of Alcohol and Drug
Abuse, Division of Public
Health, Section of Community
Health Services, Section of
Epidemiology

Tanana Chieftain Conference, Inc.

Yukon-Kuskokwim Health Corporation,
Health Education Department

• Whereas tobacco kills far more Americans each year than alcohol, car accidents, suicide, homicide, AIDS, heroin and cocaine combined;

• Whereas tobacco is the leading cause of preventable death in the country;

• Whereas 3,000 children become regular smokers each and every day;

• Whereas 73% of daily teen smokers who think they won't be smoking in 5 years are still smoking 5 years later;

• Whereas 84% of Alaska adult smokers started smoking between the ages of 10 and 20;

• Whereas tobacco kills 1 out of 5 Alaskans;

• Whereas Alaskan Natives suffer disproportionately from the burden of tobacco addiction and illness;

• Whereas it is the responsibility of the State of Alaska to do everything in its power to blunt the negative impact of tobacco on the health of our citizens;

• Whereas smoking-related death and disease cost each Alaskan \$220 in 1991;

• Whereas smoking-related death and disease cost the Alaska economy \$127.6 MILLION DOLLARS in 1991;

• Therefore be it resolved that The Alaska Tobacco Control Alliance calls upon the Alaska Legislature to enact a significantly higher state excise tax on all forms of tobacco, and to ensure that this higher tax rate is regularly increased to keep pace with inflation.

ALASKA TOBACCO CONTROL ALLIANCE

A \$1 per pack increase in the state cigarette tax?

Public Opinion Poll Results

December 14, 1995 - January 20, 1996

- ▶ Alaska's state budget is about five hundred million dollars larger than the revenue it will take in this year. Most of this revenue is from oil and gas taxes. People have different views about how to deal with this fiscal gap. Do you think the fiscal gap can be closed only with spending cuts, or do you think the fiscal gap can be closed only with a mix of spending cuts and new revenue sources?

Spending Cuts	16%
Spending Cuts and Revenue Sources	72%

- ▶ Now, I would like to turn to tobacco taxes. The current Alaska state tax is 29 cents per pack of cigarettes. In general, do you favor or oppose increasing Alaska's tobacco taxes by one dollar per pack to help close the state's fiscal gap?

Strongly Favor	49%
Somewhat Favor	25%
Somewhat Oppose	5%
Strongly Oppose	16%

- ▶ If it was proven that a large cigarette price increase prevents or reduces smoking among children and teenagers, would you favor or oppose raising the state tax by one dollar per pack?

Strongly Favor	71%
Somewhat Favor	15%
Somewhat Oppose	9%
Strongly Oppose	3%

- ▶ Do you generally favor taxing other tobacco products, such as chewing tobacco, snuff, and cigars, at a higher rate than cigarettes, about the same rate as cigarettes, or at a lower rate than cigarettes?

Higher Rate	8%
Same Rate	83%
Lower Rate	5%

- ▶ I want to get your final opinion, ever, if it is different from the opinions you expressed earlier. All things considered, do you favor or oppose increasing Alaska's tobacco taxes by one dollar per pack?

Strongly Favor	58%
Somewhat Favor	15%
Somewhat Oppose	7%
Strongly Oppose	18%

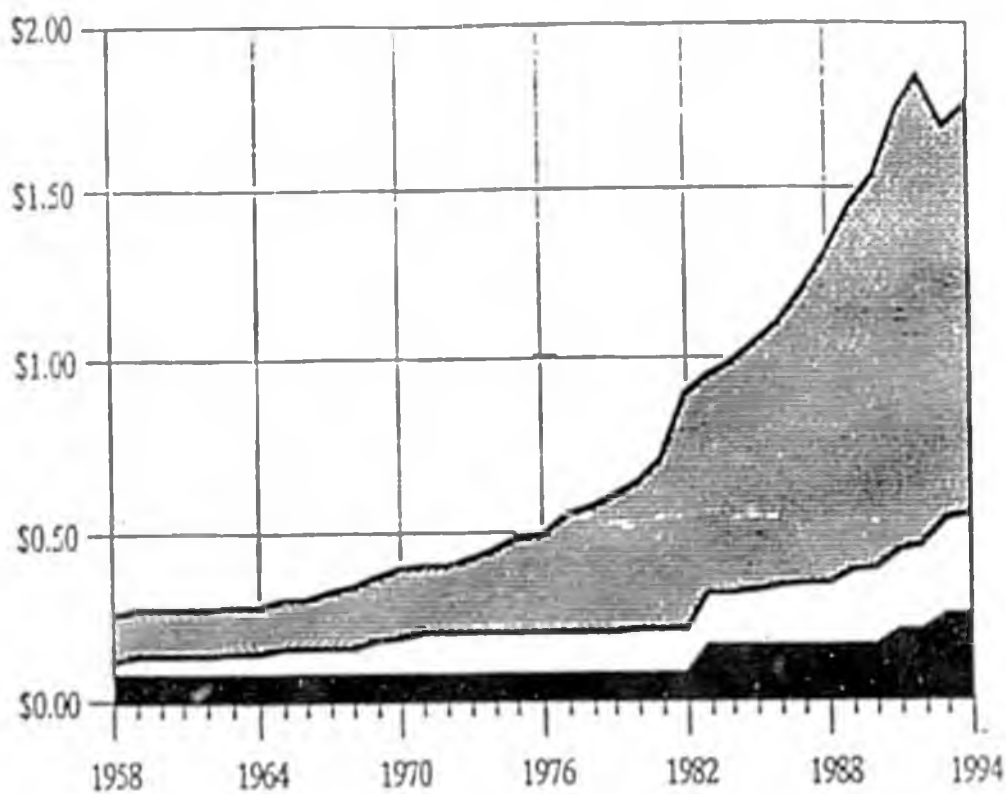
These data are based on preliminary analysis of the results of the Alaska Smokeless States Survey, a telephone survey of a representative sample of 820 Alaska residents 18 and older conducted from December 14, 1995 through January 20, 1996. The survey was conducted using a single stage, list-assisted random-digit-dialing stratified sample design. One adult was selected to be interviewed within each household. The survey concerned public attitudes toward the state's budget gap and tobacco policy issues. The margin of sampling error (95% sampling interval) for statewide estimates made for all residents is no more than plus or minus 4.3 percentage points. The survey was conducted by Mathematica Policy Research, Inc. in Princeton, New Jersey, under contract with the Robert Wood Johnson Foundation.

BACKGROUND

Graph 2

TOBACCO PRICES & TAXES
UNITED STATES 1958 - 1994

Nominal Terms



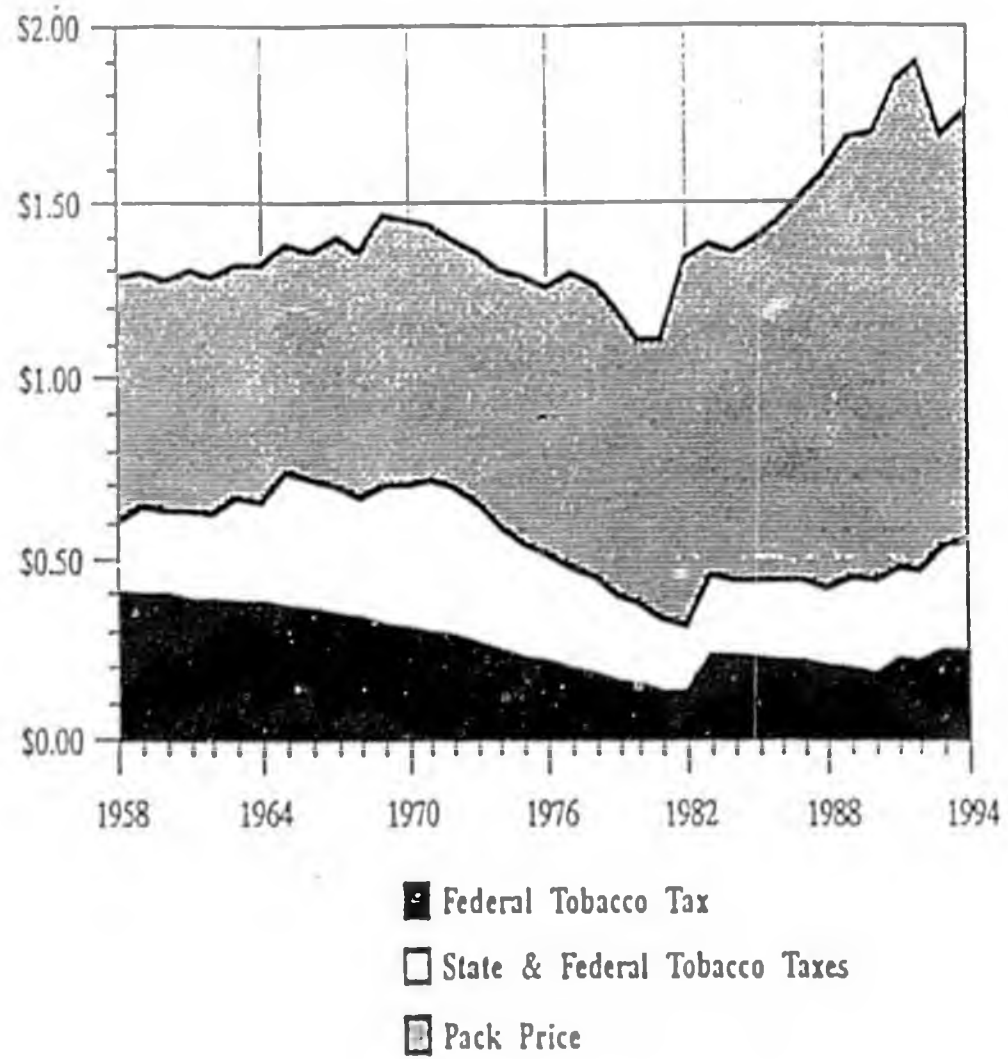
- Federal Tobacco Tax
- State & Federal Tobacco Taxes
- ▨ Pack Price

Source: THE TAX BURDEN ON TOBACCO, Historical Compilation, volume 29, 1994, The Tobacco Institute, Washington DC.

Graph 3

TOBACCO PRICES & TAXES
UNITED STATES 1958 - 1994

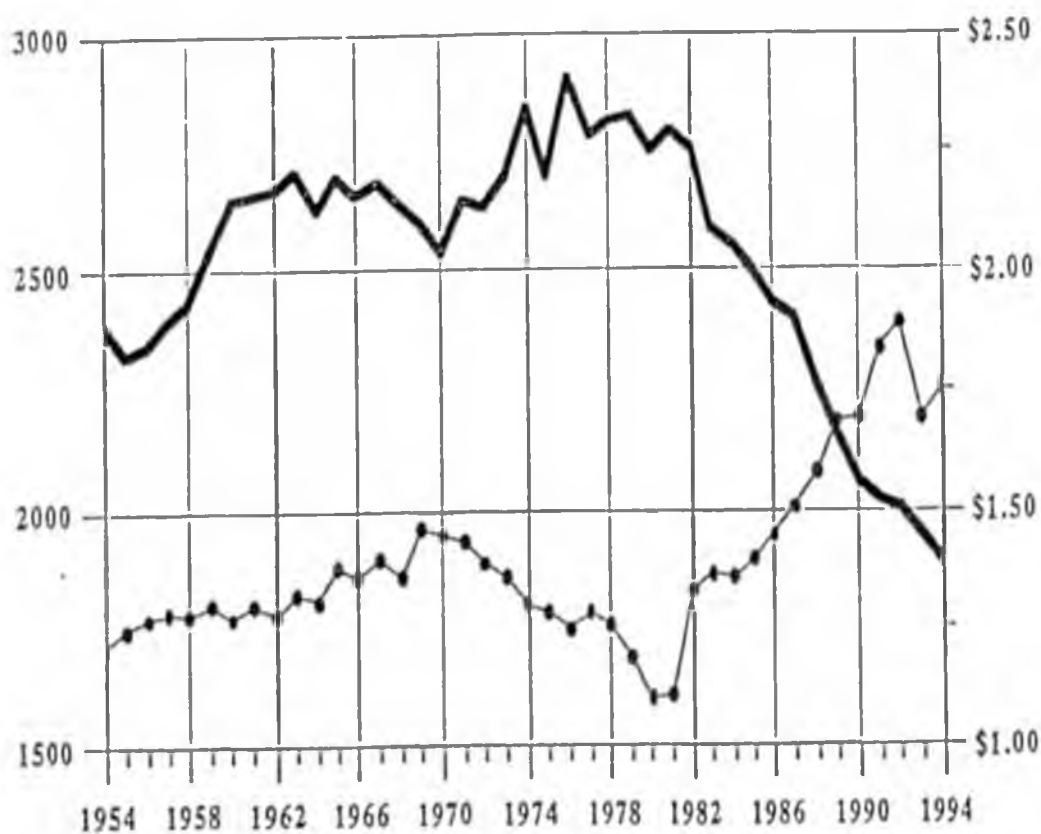
Real Terms



Source: THE TAX BURDEN ON TOBACCO, Historical Compilation, volume 29, 1994, The Tobacco Institute, Washington DC.

Graph 1

ANNUAL PER CAPITA CONSUMPTION OF CIGARETTES
AND REAL PRICE OF TOBACCO (per 20 cigarettes)
UNITED STATES 1954 - 1994



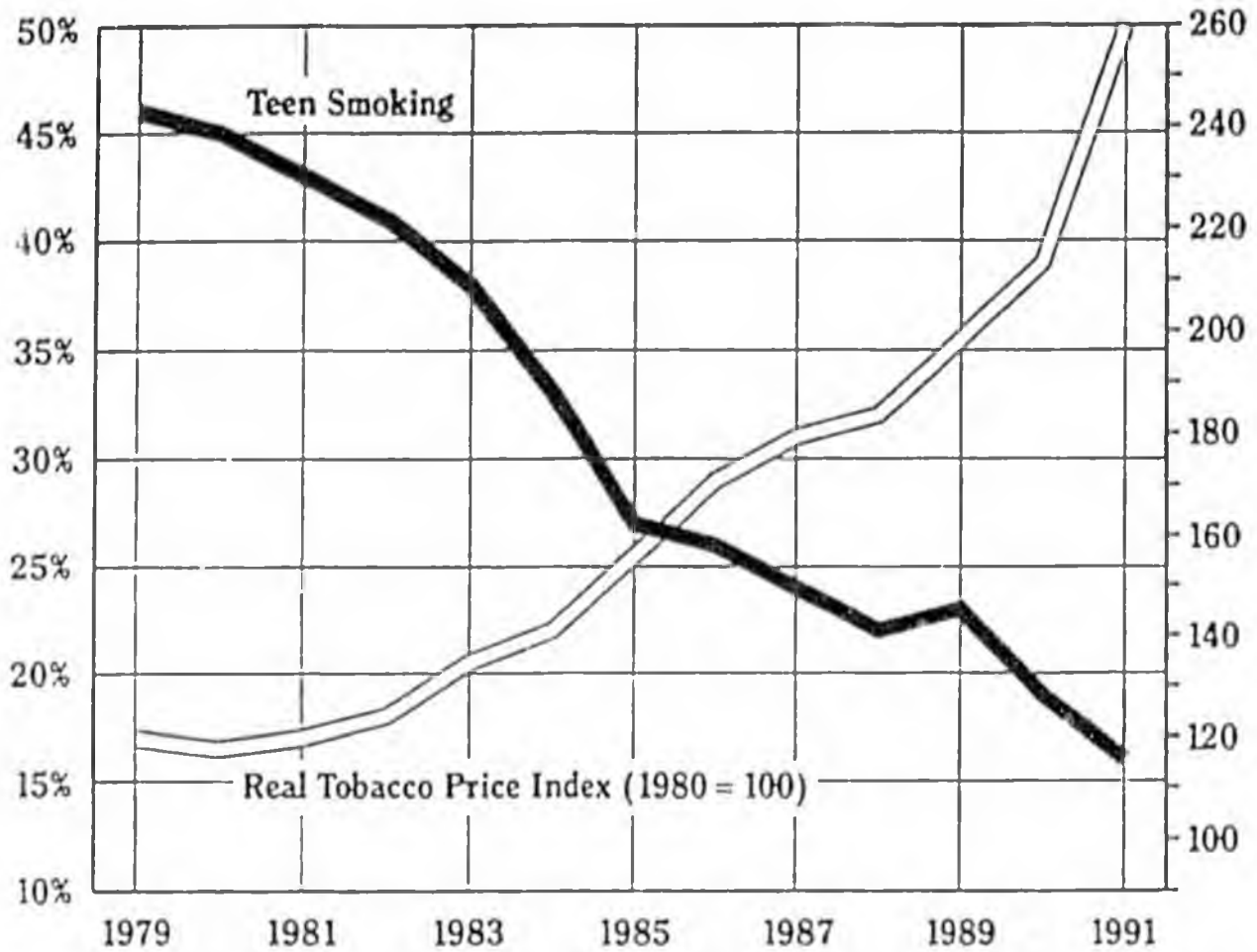
— Annual per capita consumption

◆ Real Price of Tobacco (1994 dollars)

Sources: The Tax Burden On Tobacco, published by The Tobacco Institute, Washington, DC, vol. 29, 1994.

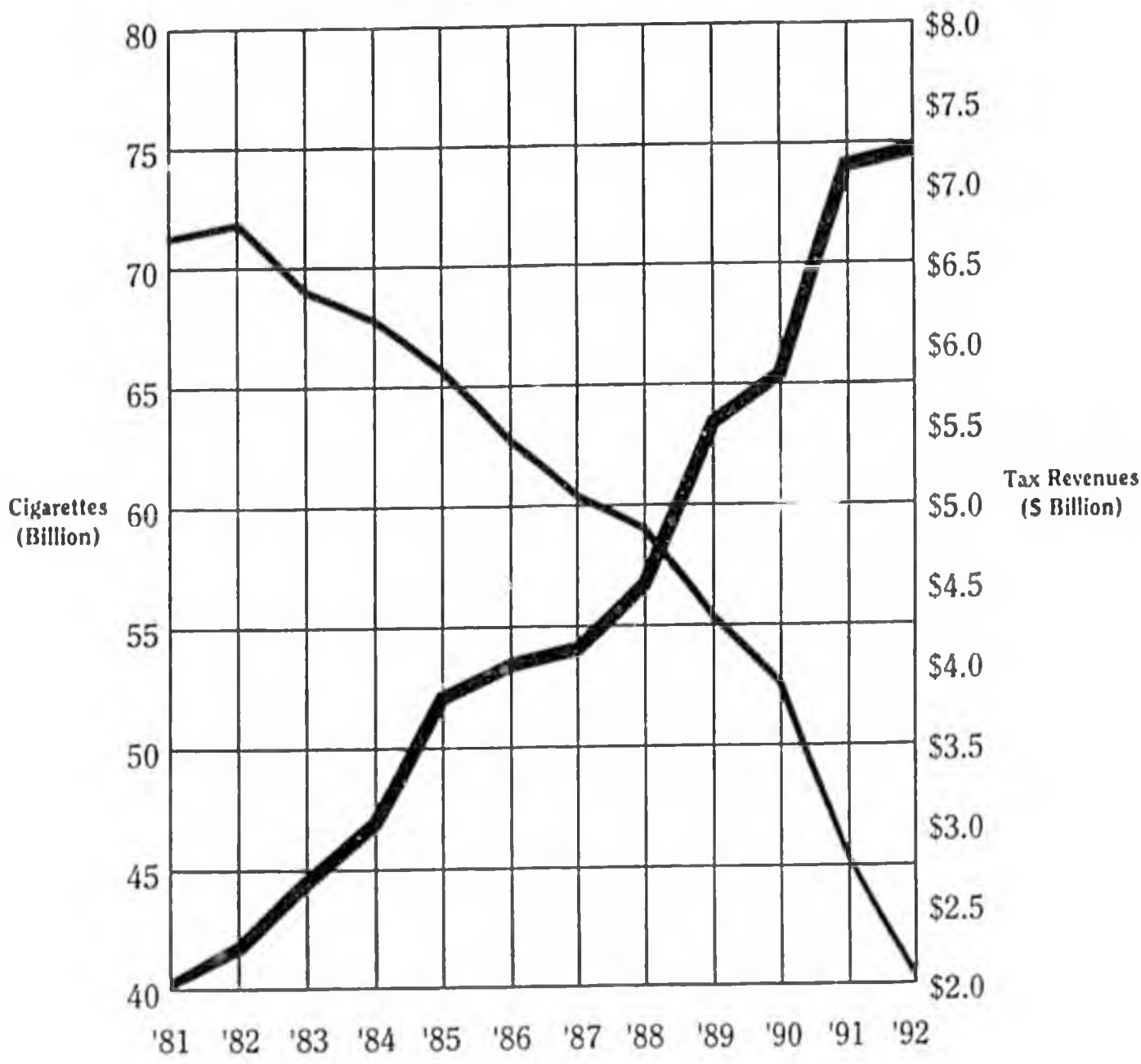
U.S. Bureau of Labor Statistics, CPI (all items).

Figure 1: Real cigarette prices and cigarette smoking among Canadians age 15 to 19



Source: Statistics Canada, Labour Force Survey, 1991; Canadians and Smoking: An Update. Health and Welfare, Canada, 1991.

Figure 1. Sales of Cigarettes Versus Tobacco Tax Revenue Canada 1981-1992



— Domestic Sales of Cigarettes and Fine-Cut Equivalent (1 g)
— Total Tax Revenues

Sources: 1. Statistics Canada, Catalogue 32-022 Monthly.
2. Department of Revenue, Government of Canada.

Dear Senator Sharp,

It looks like they are at it again. Rather than creating a new batch of penalties for the citizenry, I feel there is more that should either not be done or needs to be undone in our State. The following is one such topic:

Most if not all States have a State Motto. Such as Texas: "Don't Tread on Me", Missouri: The "Show Me" State etc. The most appropriate Motto for the State of Alaska, appropriate for licence plates and other public display would be: "The Mother State" as in: "Mother knows best", "Don't do that, it isn't good for you", "When you grow up you will thank me for stopping you".

I am talking about regulations and laws that seek to control what some, (not all), see as inappropriate behavior. For example: A substantial number of people smoke. Yet we are in a frenzy to pass laws and create regulations that interfere with that choice that they have made and continue to make. I can readily imagine the self satisfied smirk of those that see the huddled clusters of smokers outside their workplace in the rain or cold. I am not sure the quantity of smokers are even properly classed as a minority other than that they are slightly less than 50% of the population. I do not smoke. I did for many years, quit 12 years ago and do not believe that story that it is an addiction. Anyone that wants to quit certainly can. It is a choice they make and it is not the business of government to decide for them or penalize them with silly regulations that only harass or taxes that inflict real financial harm. We might benefit from observing what happened when Canada raised the cigarette taxes to \$4 per pack. It has turned them into a nation of smugglers.

Alcohol now carries taxes so far in excess of its cost that there is no longer any price value relationship. Our do gooder claque now proposes to further tax this commodity on the basis that they believe the money of the thing matters. In some areas of the Alaska Bush a bottle of \$10 whiskey goes for over a hundred and does not want for takers. Bootleg liquor is a major business in this state and you could raise the price as much as you want without having the least effect on consumption except among those to whom alcohol has little attraction.

We are not talking about moral questions here. We are talking about choices individual citizens have made about how they want to live their lives. What is next? Will these people controllers who know so much decide to ban butter? Or potato chips? Or Chinese food? Or automobiles so that we will all get healthy exercise walking to work? There is a principle here. Once you begin regulating behavior in this fashion it becomes only a matter of degree.

Cordially,

Howard L. Axtell
991 Bennett Road
Fairbanks, Alaska 99712

TOBACCO TAX INDEX

- I. State of Alaska Bulletin
- II. Excise Taxes and Preventing Tobacco Use in Young People
- III. Tobacco: The Positive Impact of Increased Taxes
- IV. Tobacco Tax Quotes
- V. Gains From Alaska's \$1 Cigarette Tax Increase
- VI. Tax will Raise \$100 Million in the 1st Three Years
- VII. World Smoking & Health
- VIII. A Tax That's Good for You
- IX. Youth who smoke
- X. The Almanac-Teen Smoking



Department of Health and Social Services
Karen Perdue, Commissioner
3601 C Street, Suite 576, P. O. Box 240249, Anchorage, Alaska 99524-0249 (907) 581-4400

Division of Public Health
Peter M. Nakamura, MD, MPH Director

Section of Epidemiology
John Middaugh, MD, Editor
Bulletin No. 1 January 12, 1998

Smoking Related Mortality in Alaska: 1992-94

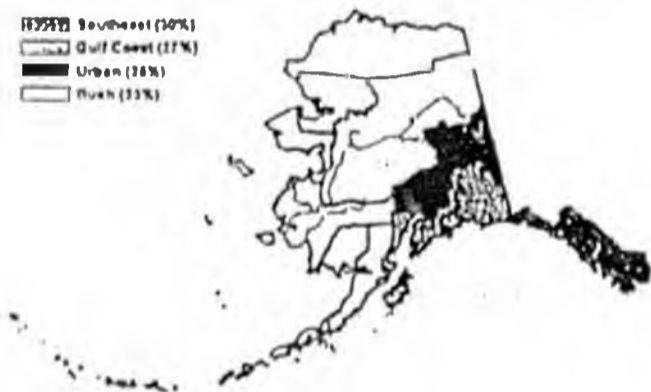
Cigarette Smoking in Alaska

Alaska has one of the highest smoking prevalence rates in the United States. Alaska's smoking rates are similar to those found in Nevada and in the tobacco-growing states¹. Alaska Natives have even higher smoking rates (Table 1). The highest smoking prevalence is found in the Bush region, and the lowest in the Urban region (Figure 1).

Table 1. Smoking Prevalence among Adult Alaskans by Race and Sex

	Alaska Native ^a	All Races ^d
Men	46.5%	28.1%
Women	39.3%	25.0%

Figure 1. Smoking Prevalence in Alaska²

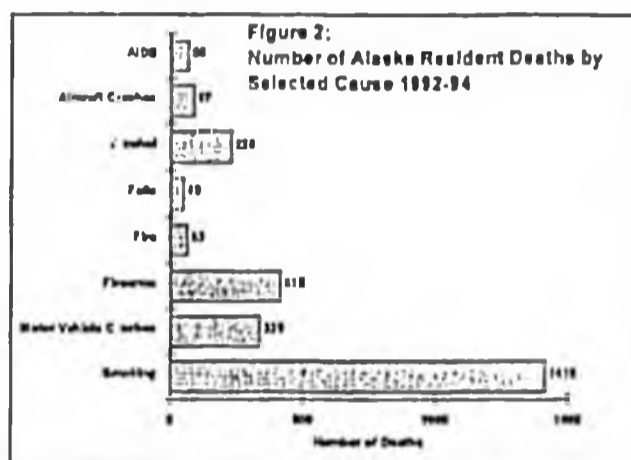


Deaths to Alaska Natives from Smoking

Alaska Natives account for 23.2% (329) of the smoking related deaths, although they account for 16.5% of the state's population.

Comparison to Other Important Causes of Death

The graph below shows how smoking compares to other preventable causes of death in Alaska³.



Summary

Each year, smoking kills more Alaskans than AIDS, aircraft crashes, alcohol, falls, fires, firearms and motor vehicle crashes combined. Alaska Natives are at higher risk because of their higher smoking rates.

Tobacco is considered the leading preventable cause of death in the United States⁴. The majority of smokers began smoking before 19 years of age⁵. In the U.S., by the 1980's, almost no regular smoking began after the age of 18⁶. Therefore, efforts to decrease tobacco use in the U.S. are being directed towards school-age children and adolescents, including limiting advertising and access to cigarettes¹⁰. Additional tobacco cessation efforts include developing and enacting strong policies for clean indoor air, increasing excise taxes and increasing educational efforts.

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2. Alaska Behavioral Risk Factor Surveillance, 1991-93 Average. AK Division of Public Health.
3. Alaska Behavioral Risk Factor Surveillance, 1993 Annual Report; AK Division of Public Health.
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5. Schulz JM, Novotny TE, Rice DP: SAMMEC II-Computer software and documentation. Rockville, Md. U.S. Department of Health and Human Services, Public Health Service, CDC, April 1990.
6. Mortality Data for Alaska Residents, provided by the Bureau of Vital Records, Alaska Division of Public Health. Cardiovascular Disease: ICD-9 390-448; Cancer: ICD-9 140-208; Respiratory ICD-9 460-519; Perinatal ICD-9 740-779, 798.0 and age < 12 mos
7. Mortality Data for Alaska Residents, provided by the Bureau of Vital Records, AK Division of Public Health. Aircraft Crashes: ICD-9 840-845; AIDS ICD-9 42-44; Alcohol ICD-9 291.303,305,357.5,335.3, 425.5, 790.3, 860, 710.571.3; Falls ICD-9 880-888; Fires ICD-9 890-899; Firearms ICD-9 922,935,965,970,985; Motor Vehicle Crashes ICD-9 810-825
8. CDC. Reducing the health consequences of smoking: 25 years of progress a report of the surgeon general. Washington, D.C. USDHHS, PHIS, CDC, 1989. #89-8011.
9. Giovino GA, Henningfield JE, Tomar SL, et al: Epidemiology of tobacco use and dependence. Epidemiol Rev 1995;17:1-65.
10. Federal Register, August 11, 1995. Regulations restricting the sale and distribution of cigarettes and smokeless tobacco products to children and adolescents proposed rule.

Deaths Caused by Smoking

The Centers for Disease Control and Prevention (CDC) has estimated that each year cigarette smoking results in approximately 419,000 deaths in the United States⁷. Deaths that are related to cigarette smoking include a portion of: cardiovascular disease; cancers of the lung, larynx, oral cavity, esophagus, pancreas, bladder, kidney and cervix; chronic bronchitis, emphysema, and other respiratory deaths⁸. Smoking also results in deaths in the perinatal period because it causes low birth weight infants and preterm delivery.

Using software provided by CDC⁹, we estimate that 1,416 deaths to Alaska residents during 1992-1994 were attributable to smoking, accounting for 19.8% of the 7,159 deaths during that time (Table 2).

Table 2. Total Number of Deaths and Estimated Smoking Related Deaths in Alaska 1992-94

Cause of Death	Total # of Deaths ^a	Smoking Related Deaths	Percent Smoking Related
Cardiovascular	2,010	533	26.5%
Cancers	1,655	546	33.0%
Respiratory	503	260	51.7%
Perinatal (< 12 mos)	204	14	6.9%
Total	7,159	1,416	19.8%

Smoking Related Mortality Among Men and Women in Alaska

Of the 1,402 deaths among adults attributable to smoking, 912 were men, and 490 were women. Historically, men have been smoking longer than women and many smoking deaths are caused by long term use of cigarettes. Because smoking rates are now similar for men and women, women may have higher smoking attributable mortality in the future.



Department of Health and Social Services
Margaret R. Lowe, MEd, EdS, Commissioner

Division of Public Health
Peter M. Nakamura, MD, MPH, Director

Section of Epidemiology
John Middaugh, MD, Editor

701 C Street, Suite 576, P.O. Box 240249, Anchorage, Alaska 99524-0249 (907) 581-4406

Bulletin No. 23 November 30, 1994

COSTS OF SMOKING IN ALASKA, 1991

It is estimated that each day 1,100 Americans will die from tobacco use; 3,000 children will smoke their first cigarette. In all, 419,000 smokers died and 1.5 million smokers quit in 1990. They are replaced by new smokers, 90% of whom start to smoke before age 18.¹

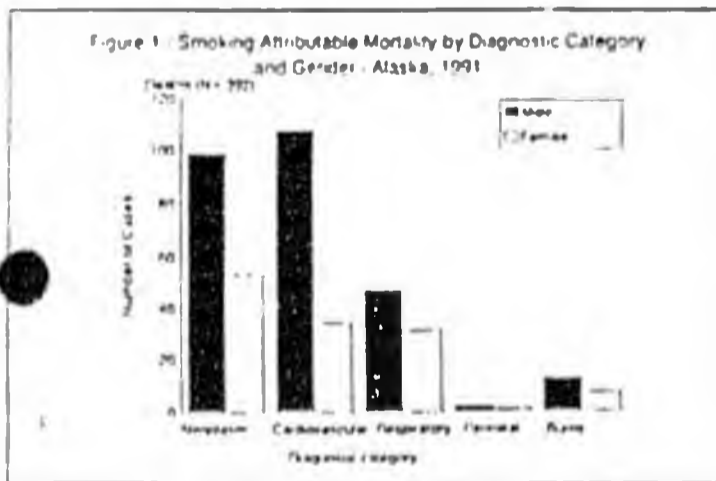
Cigarette smoking has substantial impact on mortality in Alaska. Every day an Alaskan dies due to smoking-attributable causes.

To estimate the impact of cigarette smoking in Alaska in 1991, we used the Smoking-Attributable Mortality, Morbidity, and Economic Cost (SAMMEC) software² distributed by the Centers for Disease Control and Prevention, and data from:

- the 1991 Behavioral Risk Factor Surveillance Survey
- health-care expenditure data (from the Office on Smoking and Health, CDC)
- population estimates by age and sex (Alaska Dept. of Labor) and,
- deaths by age, sex and smoking related diagnostic category (Section of Epidemiology).

RESULTS:

Smoking Attributable Mortality – 19% of the 2,076 Alaskan deaths in 1991 were smoking related. The proportion of all deaths attributable to smoking was higher for males (20%) than for females (16%). For males 40% of the smoking attributable deaths were due to cardiovascular diseases and 37% to neoplasms, whereas for females, 27% of smoking attributable deaths were due to cardiovascular diseases and 42% to neoplasms (Figure 1). Among Alaskans ≥35 years of age, 23% of deaths (372/1643) were attributed to cigarette smoking.



Smoking Attributable Years of Potential Life Lost (YPLL) – YPLL are the number of years that the person died prior to their 65th birthday. An average of 4.5 years of life were lost for each person 35 to 65 who died from a smoking related death in 1991.

Smoking Attributable Direct Costs – Direct health-care costs are the costs for the prevention, detection and treatment of smoking-related diseases as well as the cost for rehabilitating smokers suffering from smoking related illnesses. Costs of hospitalization, physicians' services, medications, nursing home care, and other professional services are included. The estimated total for direct costs in 1991 was \$45.6 million for persons ≥35 years of age. This is equivalent to \$220 per Alaskan ≥35 years of age or \$941 per current smoker ≥35 years of age.

Smoking Attributable Indirect Mortality Costs – These costs are calculated as the wages and salaries forfeited by persons who die prematurely from smoking-related causes. An estimated \$67.9 million was lost due to the indirect costs caused by smoking deaths.

Smoking Attributable Indirect Morbidity Costs – These costs include lost earnings and productivity for persons disabled by smoking-related chronic diseases. The estimated cost for indirect morbidity due to smoking was \$14.1 million.

The total estimated smoking attributable cost for Alaskans ≥35 years of age in 1991 was \$127.6 million.

DISCUSSION:

Smoking causes substantial mortality, morbidity and economic costs in Alaska. Total estimated smoking attributable costs have increased by 53% since 1989.³ These estimates are conservative since 1989 U.S. Labor Force and earnings data were used to calculate economic costs, which are lower than Alaska annual mean earnings. If Alaska specific health-care costs⁴ are used (instead of OSH health-care national estimates), total costs are greater – \$134 million.

SAMMEC underestimates the impact of smoking for several other reasons: 1) Estimates are based on cigarette smoking prevalence for 1991 which are lower in recent years than in the previous 30 years. The current burden of most chronic diseases linked to smoking reflects previous decades of higher smoking prevalence. 2) Estimates do not include deaths from other conditions (e.g., such as leukemia, and peptic ulcer disease) that may also be associated with smoking, nor do they include mortality caused by other forms of tobacco use (pipes, cigars, and smokeless tobacco) or exposure to environmental tobacco smoke.

To reduce the adverse health impacts of tobacco use, continued progress must be made in reducing tobacco use, especially smoking.

Vigorous efforts are needed to prevent the initiation of smoking, encourage smoking cessation at any age, and protect nonsmokers from the adverse effects of environmental tobacco smoke. Because many factors affect smoking initiation and cessation, multiple approaches are necessary including:

- increasing educational efforts
- reducing minors' access to tobacco products
- increasing tobacco excise taxes
- implementing more extensive and intensive counseling by health-care providers on smoking prevention and cessation
- developing and enacting strong policies and laws for clean indoor air
- eliminating advertising, especially advertising targeted toward persons less than 18 years of age.

References:

1. CDC. Smoking attributable mortality and years of potential life lost – United States, 1990. *MMWR* 1993;42:645-649.
2. Schultz JM, Novotny TE, Rice DP. SAMMEC II: computer software and documentation. Rockville, Md.: US Dept. of Health and Human Services, Public Health Service, CDC, April 1990.
3. Perham K. *State of Alaska Epidemiology Bulletin*, July 6, 1991.
4. "State of Alaska Health Resources and Access Task Force Final Report January 1993.

Excise Taxes and Preventing Tobacco Use In Young People

by David Swenor

We need to reexamine the approaches taken in the worldwide fight against tobacco use. We need to consider the evidence of our success to date, not on the basis of justifying past action, but with the aim of increasing our effectiveness. We need to be reminded that during our 25-year fight against tobacco, world cigarette production has doubled and per capita consumption has increased 25%.

In most parts of the world, like my own country of Canada, the resources committed to tobacco control are very limited. This means the few people working to reduce tobacco use must use the most effective tools available. It is my view that the economics of tobacco have defeated our worldwide efforts to date and that turning the economics to our favor is the single most effective thing we can do to reduce tobacco use.

Affordability of tobacco appears to be, for many countries, the single largest determinant of how many children will start smoking.

Fortunately, the cost of cigarettes need not be determined solely by tobacco companies: tax policy can dictate prices and health concerns can dictate tax policy. It is time to use the incredibly cost-effective tool of tax policy as central to any strategy to reduce tobacco use and to prevent

young people from ever becoming addicted in the first place.

The Economics of Tobacco Control

It is hardly surprising that those who came early to the fight against tobacco use chose the well-tried weapons of previous health campaigns; first, the search for a cure. When that failed, we looked to health education. Only when we came to realize that much greater gains could be made, did we resort to legislative action.

Each of these successive approaches has been a movement toward dealing with the source of the problem. We started with the symptoms and moved to the cause. The closer we have come to the source of the problem, the more effective the intervention has been. As we examine the various legislative avenues available, it is clear that some are more effective. I believe that economics is about the most effective tool available, and legislative intervention in the area of tobacco tax policy is the way to turn this tool to our advantage.

We know that controlling tobacco use is different from other health battles—because the foe is not a virus or bacteria, but a powerful industry with a vested interest in making money from the product causing the disease.

It can fairly be said that the profits from marketing tobacco are so great that some companies are willing to kill

for them. Cigarettes are very cheap to manufacture, they are addictive, and virtually every national market is controlled by no more than three companies. The result is often little price competition, so retail prices edge upward, and profits skyrocket.

However, there is a flaw in marketing a deadly product—built-in obsolescence not of the product, but of its consumers. The tobacco industry has to recruit new consumers to survive. The profile of these new recruits varies from country to country but with one universal constant: the new users of tobacco products are overwhelmingly young people. As a result, we know that the real battle is to stop the tobacco industry from recruiting young people. A person who has not become a tobacco user by age 20 is likely to never become one.

We also know that, despite decades of health education, young people do not grasp the magnitude of the risk associated with tobacco use. For example, in Canada, despite the best efforts of health educators, a recent survey¹ found that only a small minority could recall that smoking caused heart disease, many did not know that lung cancer is fatal, and few realized that the risk of heart disease declines dramatically soon after someone quits smoking.

David Swenor is Legal Counsel for the Non-Smokers' Rights Association of Canada.

Presented at the 8th World Conference on Tobacco OR Health, Buenos Aires, Argentina, March 30-April 3, 1992.

But there is one piece of knowledge we and the tobacco industry have in common—that price is the key. If the price of tobacco goes down, use goes up. If tobacco becomes less affordable, consumption goes down.

Price has the greatest influence among those who are not yet addicted: the young. The industry needs to get them into the market.

We need to keep them out.

Cigarette Prices and Young People

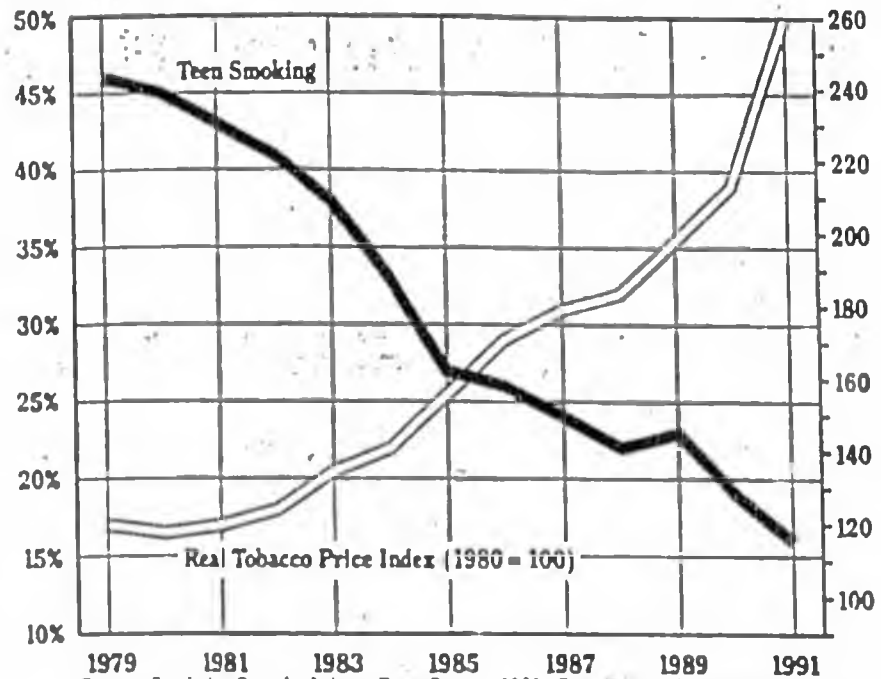
Evidence from the United States² has suggested that every 10% increase in the real (i.e., after inflation) price of cigarettes leads to roughly a 10% reduction in tobacco use among teenagers. This evidence, which has existed for at least a decade, led some of us in Canada to decide to focus on tax increases as an integral part of our approach to tobacco control.

These efforts have been successful. We have obtained very large tobacco tax increases that have caused dramatic increases in tobacco prices and resulted in stunning falls in the number of young people using tobacco.

In 12 years—from 1979 to 1991—the real price of tobacco increased by a total of 158% and teenage tobacco use fell by two thirds (Figure 1). This is startling progress toward the goal of a tobacco-free society.

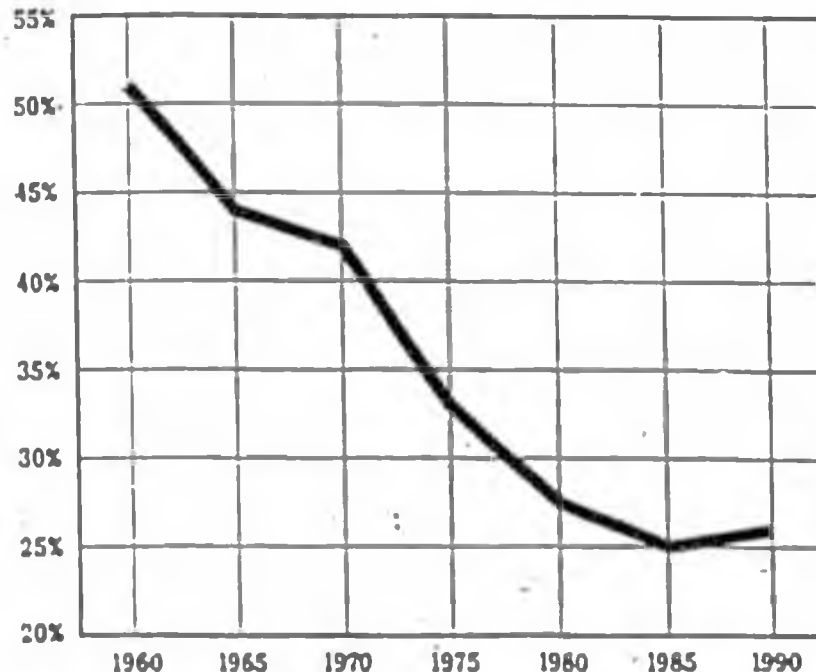
In determining the extent to which the decline in Canadian teenage tobacco use has been induced by tax-based price increases, various factors can be considered. Public education campaigns do not explain this drop, since countries like Canada (such as the United States) ran similar campaigns but experienced no comparable decline in teenage smoking. Even our ad ban, health warnings, and laws protecting nonsmokers cannot explain

Figure 1: Real cigarette prices and cigarette smoking among Canadians age 15 to 19



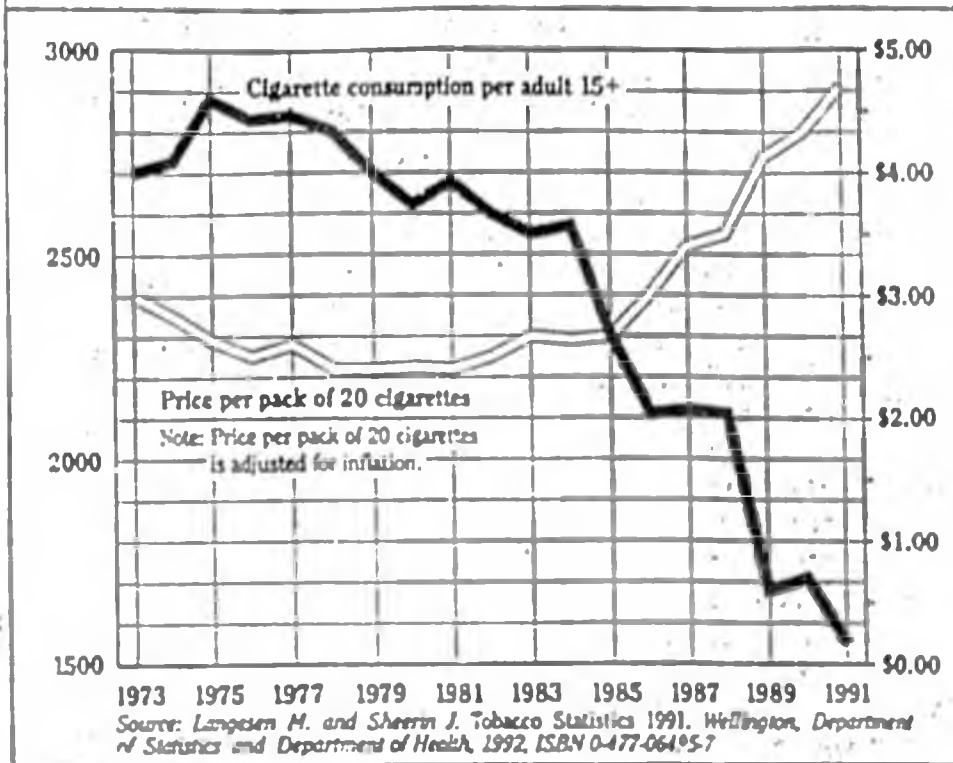
Source: Statistics Canada, Labour Force Survey, 1991; Canadians and Smoking: An Update. Health and Welfare, Canada, 1991.

Figure 2: Tobacco taxation in the United States—average cigarette tax as a % of retail price



Source: The Tax Burden on Tobacco. The Tobacco Institute, Volume 25, 1990, pp. 77-108.

Figure 3: Cigarette consumption versus pack price—New Zealand, 1973-1991



this fall, since these are recent measures. A 1991 study³ found that the price sensitivity of Canadian teenagers is much in line with what the US studies had suggested.

Unlike many other interventions, the impact of tax changes is immediate and dramatic. Whereas other interventions often require a great commitment of resources, the cost of a tax intervention can work out to no more than pennies per life saved. All that is needed is a little knowledge, some persuasive advocacy, and persistence.

How Can We Use This Information?

It seems clear that tobacco taxation is a strategy that works. Why then is it so underutilized? Why have so few governments used taxes to reduce tobacco consumption? Why have some countries—like the United States—let the tax component of retail prices

slump (Figure 2) while research showed the impact of tobacco use and the role of taxation in reducing such use? Why do some governments who are prepared to see tobacco advertising banned, still protect the cheap cigarettes produced by their national tobacco monopolies?

One reason must be that the health lobby has been so reluctant to put tobacco tax increases at the top of its agenda. Unlike the tobacco industry, we have failed to realize the power of economics. Because we are less experienced in talking to government finance officials than dealing with the health departments. Because it means talking an unfamiliar language to people who may—at the start—be unsympathetic.

But the experience of places such as Hong Kong, Britain, New Zealand, and Canada shows that the effort is

repaid many times over. In fact, the benefits from the impact on youth smoking are greatly compounded by the impact on adult tobacco consumption. An analysis of countries around the world shows the powerful inverse relationship between price and consumption. New Zealand is but one example (Figure 3).

Finance ministers are willing to listen to a well-presented health case. This could be due to a combination of pure expediency, since tobacco taxes are a convenient way to raise money, and a recognition of the role of fiscal policy in preventing disease. Once convinced, these officials can be powerful allies within government.

Another lesson is that tax increases are the fastest, surest way of achieving large reductions in tobacco consumption. And that in turn opens the way for further initiatives. Fewer smokers make it easier to get restrictions on workplace smoking, to get smoke-free transportation, and to get rid of advertising. The higher taxes can also increase a government's willingness to implement bold marketing schemes that make smuggled tobacco easier to identify while reducing the attractiveness of tobacco packaging. These measures are part of a strategy that reinforces the message to the next generation, that smoking is an activity on the way out.

Obstacles to Action

The tobacco industry resists tobacco tax increases with an intensity commensurate with its certainty that such measures reduce consumption. The industry will throw any obstacle in the way of a sizable tax increase. It will also seek loopholes that keep cheap products in the market as a lure for those who might otherwise not

start—or quit—as the price rises.

Favorite tactics of the industry include focusing attention on the plight of local tobacco growers and tobacco factory workers. It will also attempt to portray the tax as unfair to the poor, to enlist the services of those with strong government ties to oppose you, or to promote the idea that higher taxes will increase crime.

Fortunately, all these tactics of the tobacco industry have already been effectively countered in some countries. Anyone now embarking on a campaign for health-oriented tobacco tax policies can become an "instant expert" simply by learning the lessons of the campaigns run to date. The arguments the tobacco industry makes with respect to economics can be shown as no more credible than the position the industry takes on health.

The major obstacle to date has been the reluctance of health organizations to move strongly into the area of tobacco pricing. The tobacco industry and governments have done exactly as would be expected on tobacco pricing given their respective interests and methods of operation. It is the "health lobby" that has been rather absent from this field. As a

result, we have left the area of economic policy firmly in the hands of the tobacco industry and placed ourselves at a great disadvantage in our efforts to reduce youth smoking.

Conclusion

If the health community remains reluctant to get seriously involved in the economics of tobacco, we will almost undoubtedly see worldwide tobacco sales continue to increase in the foreseeable future. The increasing affordability of tobacco is probably the major reason world cigarette production has doubled in the last 25 years. If we do not move on this front, far too many of the planet's young people—the people we talk so earnestly of saving from tobacco addiction—will be making their debut as mortality statistics 25 years from now.

If we choose to get involved, to change the economic landscape in tobacco control, the impact on world tobacco consumption could be beyond anything achieved to date. The level of smoking among young people could be suddenly and significantly reduced. The impact of these same price changes among adults could lead to an unprecedented decline in world

tobacco sales.

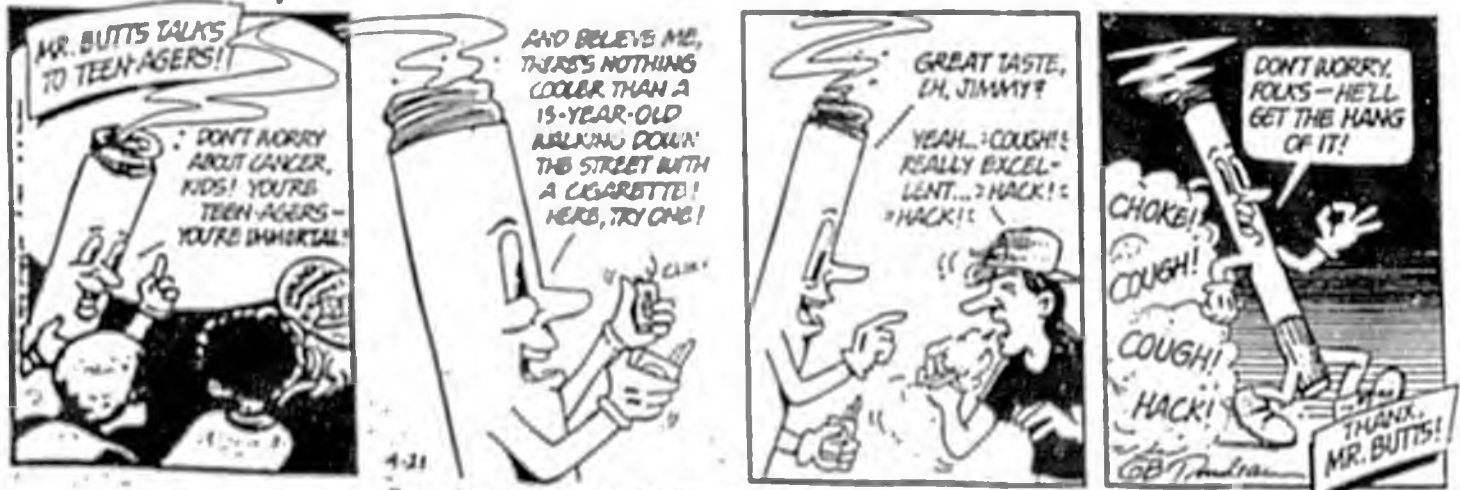
A quarter of a century ago, at the First World Conference on Smoking and Health, Senator Robert F. Kennedy said: "The industry we seek to regulate is powerful and resourceful. Each new effort to regulate will bring new ways to evade.... This is a battle that can be won." These words are as true today as they were when first spoken. They are no less true in the area of tax policy than any other area of tobacco control. Our major challenge today is to use what we know to finally start winning that battle. ☼

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1. Canadian Council on Smoking and Health, *Awareness of Health Hazards Due to Smoking*, Environics Research Group Limited, Toronto, December 1990.
2. US Department of Health and Human Services, *Smoking and Health in the Americas: A 1992 Report of the Surgeon General*, with the Pan American Health Organization, US DHHS, Public Health Service, Centers for Disease Control, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 1992, pp. 127-136.
3. Roberta Ferrance, et al. *Effects of Pricing on Cigarette Use Among Teenagers and Adults in Canada 1980-1989*, Addiction Research Foundation, Toronto, February 1991.

Doonesbury

BY GARRY TRUDEAU



Tobacco: The Positive Impact of Increased Taxes

**Revised
April 1995**

**Developed by the
American Lung Association of Alaska**

(907) 276-5864

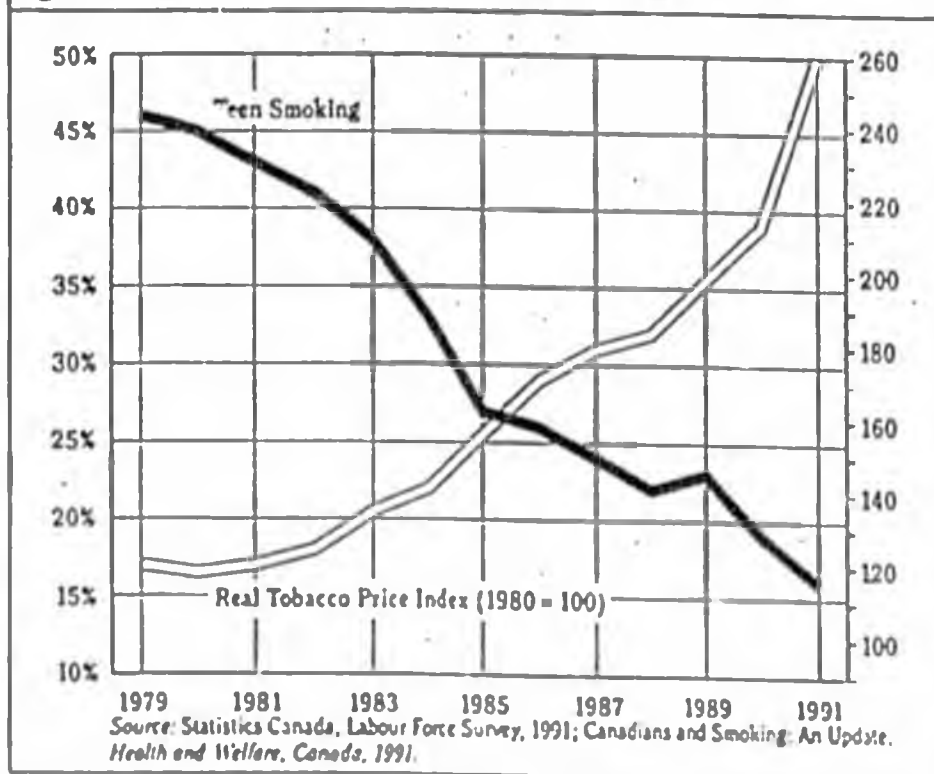
**with funding from the Robert Wood Johnson
Foundation's grant, "Trampling Tobacco: A
Winning Tobacco Control Strategy for Alaska"**

Tobacco: The Positive Impact of Increased Taxes

► **Increases in cigarette prices will reduce cigarette consumption.¹**

- In 1989, the U.S. Government Accounting Office concluded that increasing cigarette taxes should significantly reduce the number of teenagers who smoke. They concluded that for every 1 percent increase in the price of cigarettes, 1 percent fewer teenagers would take up smoking.²
- In Canada, between 1979 and 1991, higher tax rates increased the real price of tobacco by 158 percent and teenage consumption dropped by two-thirds.³

Figure 1: Real cigarette prices and cigarette smoking among Canadians age 15 to 19



¹Centers for Disease Control and Prevention. *Preventing Tobacco Use Among Young People: A Report of the Surgeon General*. Atlanta, Georgia: US Department of Health and Human Services, Centers for Disease Control and Prevention, 1994.

²U.S. Government Accounting Office. *Teenage Smoking: Higher Excise Taxes Should Significantly Reduce the Number of Smokers*. Washington, D.C.: U.S. Government Accounting Office, 1989.

³Swenor, David. "Excise Taxes and Preventing Tobacco Use in Young People." *World Smoking and Health*, Volume 17, No. 3. Atlanta, Georgia: American Cancer Society, 1992.

Tobacco: The Positive Impact of Increased Taxes (page 2)

- In California, cigarette smoking declined nearly 24 percent (from 26.7 percent in 1988 to 20.4 percent in 1992) after Californians approved a 25 cent excise tax increase.⁴

► **It is important to raise tax levels to discourage use by youth.**

- Ninety percent of smokers who become regular smokers start before they turn 21 years of age.⁵ Nearly 84 percent of adult Alaskans who smoke started between the ages of 10 and 20 years of age.⁶
- One-third of high-school-aged adolescents in the United States smoke or use smokeless tobacco. The decline in smoking prevalence among youth leveled off since 1980 and in fact, is on the rise among male high school seniors.⁷
- Each day 3,000 children in the United States smoke their first cigarette.⁸
- Youth tobacco consumption is influenced by prices at least as much as adult consumption.⁹ Some studies have found that teenagers are significantly more responsive to price changes than adults.¹⁰

► **Of the public health strategies available for reducing tobacco use, increasing tobacco prices as a way of raising the price of tobacco products is viewed as the most effective.**

- In Canada, the dramatic decrease in teenage tobacco consumption followed a substantial tax rate increase. The decrease in consumption could not be attributed to the ban on advertising, health warnings, or laws protecting nonsmokers.¹¹
- A virtue of increasing tobacco taxes as a public health strategy is that it is immediate and does not require further public resources to implement.

⁴ California Department of Health Services, 1992.

⁵ Novello, Antonia C. "Youth: An Urgent Challenge for Tobacco Control." *World Smoking and Health*, Volume 17, No. 3. Atlanta Georgia: American Cancer Society, 1992.

⁶ Alaska Division of Public Health. *Alaska Behavioral Risk Factor Survey: 1992 Annual Report*. Juneau, AK: Alaska Division of Public Health, October 1994, page 24.

⁷ Novello, Antonia C., 1992. Centers for Disease Control and Prevention, 1994.

⁸ Novello, Antonia C., 1992.

⁹ Centers for Disease Control and Prevention, 1994.

¹⁰ Lewit, Coale, and Grossman. "The Effects of Governmental Regulation on Teenage Smoking." *Journal of Law and Economics*, 24:545-569, December 1981. Grossman, et al. *Economic and Other Factors in Youth Smoking*. Washington, D.C.: National Science Foundation, 1983.

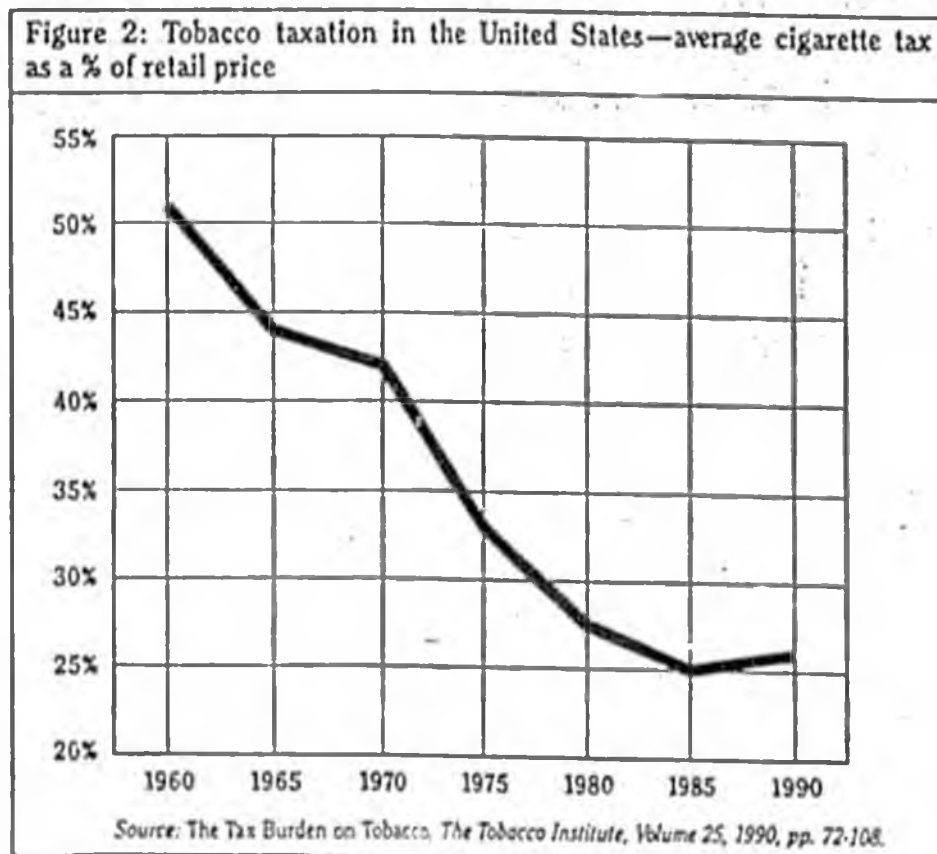
¹¹ Sweanor, David, 1992.

Tobacco: The Positive Impact of Increased Taxes (page 3)

- ▶ Public health experts estimate that increased tobacco excise taxes will discourage millions of Americans from starting to smoke and prevent millions of premature deaths.¹²

Amount of tax Increase	Number of fewer smokers	Premature deaths prevented
\$1.00	4.5 million	1.1 million
\$2.00	7.6 million	1.9 million

- ▶ Between 1960 and 1990, the average cigarette tax as a percent of retail price has sharply declined.¹³



¹² Coalition on Smoking OR Health. *Saving Lives and Raising Revenue: The Case for Major Increases in State and Federal Tobacco Taxes*. Washington, D.C.: Coalition on Smoking OR Health, January 1993.

¹³ The Tobacco Institute. *The Tax Burden on Tobacco*. Volume 25, 1990, pages 72-108 as reported in Novello, Antonia C., 1992.

Tobacco: The Positive Impact of Increased Taxes (page 4)

- ▶ **While increased tobacco taxes are a major deterrent to smoking, as of 1992, only 20 states had tobacco tax rates lower than Alaska's.**
 - The tobacco tax was last increased in Alaska in 1989. Inflation has eroded much of the real price increase.

- ▶ **A recent survey of 615 Alaskans found that 65 percent of respondents favored a 75 cent increase in the state tobacco tax if the money went toward health programs.**



This fact sheet was produced with funding from the Robert Wood Johnson Foundation's grant, "Trampling Tobacco: A Winning Tobacco Control Strategy for Alaska." For further information, contact the American Lung Association at 907/276-5864 or the Alaska Department of Health and Social Services, Health Promotion Program at 907/465-3140.

¹This reflects a combined rate for excise and sales taxes. See Centers for Disease Control and Prevention, 1994.

²Survey sponsored by the Alaska Department of Health and Social Services; conducted by Mathematica Policy Research with funding from the Robert Wood Johnson Foundation, September 1994. Results summarized in the Report to the A?CA Steering Committee, Public Policy Work Group of the Alaska Tobacco Control Alliance, November 8, 1994.

TOBACCO TAX QUOTES

FORMER U.S. SURGEON GENERAL C. EVERETT KOOP

"Let's not let the tobacco industry make victims of the public on this one. Health-related taxes are different; they're good for you."

"Figuring that smoking kills about a third of all those who smoke, this tax [a \$2 per pack increase] could prevent the premature death of at least 2 million Americans alive today. No other single aspect of any health care reform plan can make so dramatic a claim."

Source: C. Everett Koop, "A Tax That's Good For You," WASHINGTON POST, September 21, 1993, p. A19.

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FORMER PRESIDENT JIMMY CARTER

"The single most effective way to reduce tobacco use and nicotine addiction, especially among children, is a substantial increase in the price of tobacco products.

... Our children are the most important reasons for a major tobacco tax increase."

Source: Jimmy Carter, "To Save Lives, Raise Funds and Cut the Deficit: Tax Tobacco," NEW YORK TIMES, February 21, 1993, sec. 4, p. 16.

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U.S. SENATOR BILL BRADLEY

"People call this a sin tax. The sin is a government that allows 400,000 people to die every year without doing anything to stop this."

Source: "Health Groups Encouraged by Major Cigarette Excise Tax Increase. Praise Life Saving Benefits," Press Release from Coalition on Smoking OR Health, March 3, 1993.

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U.S. REPRESENTATIVE MICHAEL ANDREWS

"The members of Congress supporting [raising tobacco taxes] represent a wide range of proposals for reforming our health care system -- from managed competition to single payer. While we may not agree on the ways to achieve that goal, we do agree on the best way to help pay for it: increasing the tax on cigarettes."

Source: "Health Groups Encouraged by Major Cigarette Excise Tax Increase, Praise Life Saving Benefits," Press Release from Coalition on Smoking OR Health, March 3, 1993.

EDITORIALS, LOUISVILLE (KENTUCKY) COURIER-JOURNAL

"Increasing the taxes on tobacco products makes especially good sense. Smoking is the leading cause of preventable death.... Certainly no plan for health care reform -- state or national -- will make sense unless it emphasizes prevention of disease. That means encouraging people to drop unhealthy habits, and recognizing tobacco for what it is: the eighth deadly sin."

Source: "The Wages of Sin," LOUISVILLE COURIER-JOURNAL, February 28, 1993.

"Kentucky's leaders are making a huge strategic mistake in their fight over the proposed tax on tobacco. They all admit a tax is coming. That their response has been predictable and short-sighted: to pass meaningless resolutions and to haggle over amounts."

Source: Editorial, "Tap the Tobacco Tax," Louisville Courier-Journal, Sept. 26, 1993.

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EDITORIALS, USA TODAY

"Government should raise the cost of smoking with a steep cigarette tax hike. Something like \$2 a pack ... would work nicely."

Source: "Don't Hesitate To Raise the Tax on Cigarettes," USA TODAY, April 14, 1993. p. 12A.

"What the hell: Make it \$2.50."

Source: "Boosting Cigarette Taxes Can Pay Off in Two Ways," USA TODAY, January 12, 1994, p. 10A

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EDITORIAL, WASHINGTON POST

"Taxing tobacco more heavily--as President Clinton suggested the other day--is a thoroughly good idea. It's a twofer. The tax not only would raise substantial amounts of money for a government that desperately needs it but would exercise greater pressure on people to cut down their smoking."

Source: "Twofer Taxes," WASHINGTON POST, March 1, 1993, p. A16.

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U.S. DEPARTMENT OF AGRICULTURE, WORLD TOBACCO SITUATION

"The tobacco community strongly believes that the taxes levied upon cigarettes are the overwhelming influence on cigarette consumption."

Source: World Tobacco Situation, USDA, August, 1992, p. 36.

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DR. SAMUEL BRODER, DIRECTOR, NATIONAL CANCER INSTITUTE

"A major increase in the federal cigarette excise tax could result in real improvements in public health. It would save lives and generate revenue which could be applied to other areas, such as the nation's health care and deficit reduction."

Source: "Note to Reporters and Editors," (Press Release) Department of Health and Human Services, August 25, 1993.

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LYNNE D. RICHARDSON, M.D., F.A.C.E.P

"If there was a legislative proposal for a preventive health program which would save two million lives, I would support its enactment if it cost \$20 billion. To enact a program which will save two million lives and raise over \$20 billion in revenue seems to be to be a compellingly attractive proposition."

Source: Testimony of Lynne D. Richardson, M.D., F.A.C.E.P., on behalf of the Coalition on Smoking OR Health, before the House Ways and Means Committee, November 19, 1993, p. 4.

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DAVID SWEANOR, NON-SMOKERS' RIGHTS ASSOCIATION (CANADA)

"It's a triple-win situation. It does terrific things for public health; it brings in more revenue, because the higher tax offsets the drop in consumption; and it's popular. It's a way that a political leader can save more lives than most social researchers could ever dream of."

Source: Charles Babington, "Tax Increase Cut Smoking, Md. Finds," WASHINGTON POST, September 3, 1993, p. B1.

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KENTUCKY STATE REPRESENTATIVE ANNE NORTHUP

"A low cigarette tax will imperil the funding of health-care reform, but it won't help the tobacco farmer one iota."

Source: Press Release, Kentucky State Rep. Anne Northup, September 21, 1993.

"This is an opportunity for Kentucky political leaders to bring home the bacon."

Source: Kentucky State Rep. Anne Northup, "Northup Says Raising Tobacco Tax is Right and Could Even Help Farmers," Louisville Courier-Journal, September 22, 1993.

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**KENNETH E. WARNER, PH.D., SCHOOL OF PUBLIC HEALTH,
UNIVERSITY OF MICHIGAN**

"A substantial increase in cigarette taxation would constitute significant 'health care reform' all by itself, regardless of the fate of proposed changes in our health care delivery system. It would produce a public health achievement with few precedents while reducing the nation's health care bill in the process."

Source: Kenneth E. Warner, "Profits of Doom," AMERICAN JOURNAL OF PUBLIC HEALTH, September 1993, p. 1211.

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ALAN C. DAVIS, FORMER CHAIRMAN, COALITION ON SMOKING OR HEALTH

The Tobacco Institute is trying to convince us that American men, women and children must keep smoking and dying in vast numbers in order to protect jobs. This premise is as false as it is perverse. The logical extension of the tobacco industry's reasoning is that if we could just convince a few million more kids to smoke, we could wipe out unemployment altogether!"

Source: Alan C. Davis, former Chairman, Coalition on Smoking OR Health, Statement at a Coalition on Smoking OR Health news conference, October 9, 1993.

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From: American Cancer Society

GAINS FROM ALASKA'S \$1 CIGARETTE TAX INCREASE NOT COMPROMISED BY UNAUTHORIZED SALES

When a state moves to increase tobacco taxes, the tobacco industry immediately raises the specter of organized illegal cigarette trafficking. Why is the tobacco industry nervous? Because the record shows *state tax increases reduce smoking AND raise new revenue.*

Numerous geographic, economic and political factors dictate that Alaska's cigarette tax increase will not substantially increase illegal sales. There are four forms of illegal cigarette trafficking: interstate smuggling, international smuggling, bootlegging from (tax-exempt) Indian reservations, and illegal sales from (tax-exempt) military bases. None of these possibilities threatens the projected revenue and health gains from Alaska's proposed tax increase.

1. Interstate smuggling from Washington is too costly. Washington has the highest state cigarette tax in the U.S. (31.5 cents/pack) and a state sales tax that adds 15 cents to the price of each pack. A \$1.00 Alaska tax increase will allow virtually no profit margin for smugglers. In addition, the cost of shipping from Seattle to Alaska and the substantial time and capital required offer no realistic possibility of interstate smuggling.
2. International smuggling from Canada also makes no economic sense. According to a Peat Marwick report prepared for the Alaska Cabaret, Hotel, Restaurant and Retail Association (and backed by the tobacco industry), "Although Alaska has a long border with Canada, two of its major cities (Anchorage and Fairbanks) are not in close proximity to it. Moreover, cigarette taxes in the two bordering jurisdictions (Yukon Territory and British Columbia) would remain higher than in Alaska, even with the proposed tax change." For example, the tax in the province of British Columbia is \$2.59 (US). Consequently, there would be no incentive for international smuggling.
3. Boot-legging from Indian reservations poses virtually no threat. According to the industry's own consultant, "There is only one Indian reservation in Alaska (tribal land on Annette Island) where state and federal taxes are not levied. However, this jurisdiction is relatively small and isolated and would not be a major source of cigarettes." (Emphasis added.)
4. Limited trafficking from military bases can be controlled by the Department of Defense. Tobacco sales on military bases can be controlled by the DoD in Alaska. Entry to commissaries is restricted to authorized patrons. Furthermore, DoD policy limits the purchase of tax free cigarettes to no more than four cartons. If problems ensue, this can be further restricted. After Hawaii's state cigarette tax increase, DoD imposed a one carton limit on tax-exempt sales to avoid unauthorized re-sales.

The tobacco industry, its allies and front groups claim that our servicemen and women are lawbreakers. The report they back alleges: "Although sales to nonfamily civilians are illegal, military personnel might sell bootleg cigarettes to civilians off-base. Indeed, bootlegging appears to be widespread in Alaska and elsewhere." To suggest that US military personnel and their families will violate the law and reap profits at the expense of Alaska's state government slanders the honest, committed and hardworking members of our Armed Forces and is truly repugnant to everything they work for.

The tobacco industry used the same arguments to oppose Alaska's last tax increase.

Alaska's FY 1990 cigarette tax increase, which raised the tax from 16 to 29 cents/pack, did not result in a sharp decline in revenue. To the contrary, while cigarette smoking declined modestly, revenues doubled and have since held steady. The industry's claims of major illegal cigarette trafficking killing revenue gains were proven unfounded.

YEAR (FY)	TAX	PACKS SOLD	REVENUE
1987	16 cents	59,394,000	\$9,503,000
1988	16	55,406,000	8,865,000
1989	16	50,813,000	8,130,000
1990	16 - 29	--	13,450,000
1991	29	56,472,000	16,377,000
1992	29	54,524,000	15,812,000
1993	29	52,831,000	15,321,000
1994	29	53,614,000	15,548,000
1995	29	53,317,000	15,462,000

The tobacco industry also used these arguments to fight tax increases in other states.

When California raised its cigarette tax from 10 cents to 35 cents, revenue jumped over 200% from \$252 million (fy '88) to \$778 million (fy '90) despite industry's gloomy predictions. Over the same two-year period, cigarette consumption per person dropped 13.6 percent.

Since 1992, when the Massachusetts cigarette tax was raised from 26 to 51 cents, state cigarette tax revenue increased by 67 percent, from \$142 million (fy '92) to \$238 million (fy '94). During the same period, smoking fell by 18 percent.

From: American Cancer Society

A \$1.00 INCREASE IN ALASKA'S TOBACCO TAX WILL RAISE OVER \$100 MILLION IN THE 1st THREE YEARS

Every state to enact a major cigarette tax increase has seen a gain in revenue. In Alaska, data show a \$1.00/pack tax increase will raise more than \$100 million in new revenue in the first three years. Virtually all mainstream economists agree that tobacco tax increases both raise new revenue and reduce smoking.

Higher Cigarette Taxes Reduce Smoking and Yield Predictable, Increased Revenues

- In 1992, a panel of 12 independent economists from top American institutions were convened by the National Cancer Institute to review the existing research on the relationship between cigarette taxes and smoking, and to produce a consensus document on the subject. According to the panel, "the price elasticity of demand for cigarettes is usually found to be between -0.3 and -0.5. In other words, for every 10 percent increase in the price of cigarettes, we can expect a decline in smoking between 3 and 5 percent".
- The Alaska Department of Revenue's use of a -0.4 price elasticity of demand falls squarely within the generally accepted range. The report produced by Peat Marwick for the Alaska Cabaret, Hotel, Restaurant and Retail Association, and backed by the tobacco industry, uses a -0.62 price elasticity of demand which falls well outside this range.
- Estimates by the State Long Range Financial Planning Commission, Alaska Department of Revenue, and NCI's panel of expert economists all project that a \$1.00/pack cigarette tax increase will yield well over \$100 million in new revenues in its first three years. Even the Peat Marwick report, which grossly underestimates the benefits of a tax increase, pegs the gains to the state at \$85 million.

Estimated Additional Revenue Over Three Years from a
\$1.00 Increase in the Cigarette Tax
(millions)

Year	Alaska Long Range Comm.	Alaska Dept. of Revenue	NCI Economists	Tobacco Industry
Year 1	\$58.0	\$57.0	\$55.0	\$48.0
Year 2	57.0	57.0	53.0	43.0
Year 3	56.0	57.0	52.0	39.0
Total	\$171.0	\$171.0	\$160.0	\$130.0
vs. Status Quo	48.0	48.0	48.0	48.0
New Revenue	\$123.0	\$123.0	\$112.0	\$85.0

Alaska's OWN Record Shows Raising its Tobacco Tax Produced Major Revenue Gains

- In 1989 Alaska increased its state cigarette excise tax from 16 cents to 29 cents per pack. State revenue from cigarette sales doubled from \$8.1 million (fy '89) to \$16.4 million (fy '91), and have declined only marginally since then. In (fy) 1995 cigarette tax revenue totaled \$15.5 million.
- In the 5 fiscal years since the (fy) 1990 tax increase, Alaska's state treasury has collected \$40 million in additional revenue over what would have been earned without the increase. The table below compares actual state cigarette tax revenue for the period (fy) 1991 to (fy) 1995, to projected revenue based on a 16-cent tax² and a generally accepted baseline estimate of a 1 percent annual decline in smoking.

Revenue Gains from Alaska's 1990 Cigarette Tax Increase
(millions)

Fiscal Year	Revenue if Tax Remained 16 cents	Actual Revenue (Tax Raised to 29 cents)	Net Gain to Alaska Treasury
1991	\$7.968	\$16.377	\$8.409
1992	7.889	15.812	7.923
1993	7.810	15.321	7.511
1994	7.732	15.548	7.816
1995	7.654	15.462	7.808
Total	\$39.053	\$78.520	\$39.467

How Can a Higher Tax Reliably Generate Greater Revenues While Reducing Smoking?

- As tobacco taxes increase, some people quit smoking. However, tobacco is addictive enough that most can't quit. Thus tax revenues increase faster than sales decline. This "demand-inelastic" relationship has been observed in countless states (most recently California and Massachusetts) which have seen higher taxes reduce smoking and raise major new revenue.
- The 1995 Peat Marwick report claims the projected impact of tobacco tax revenue raised by the proposed tax increase will decline over time due to inflation. This is false. The Alaska Long Range Financial Planning Commission has proposed an increase every three years to protect the value of the new tax revenue against inflation

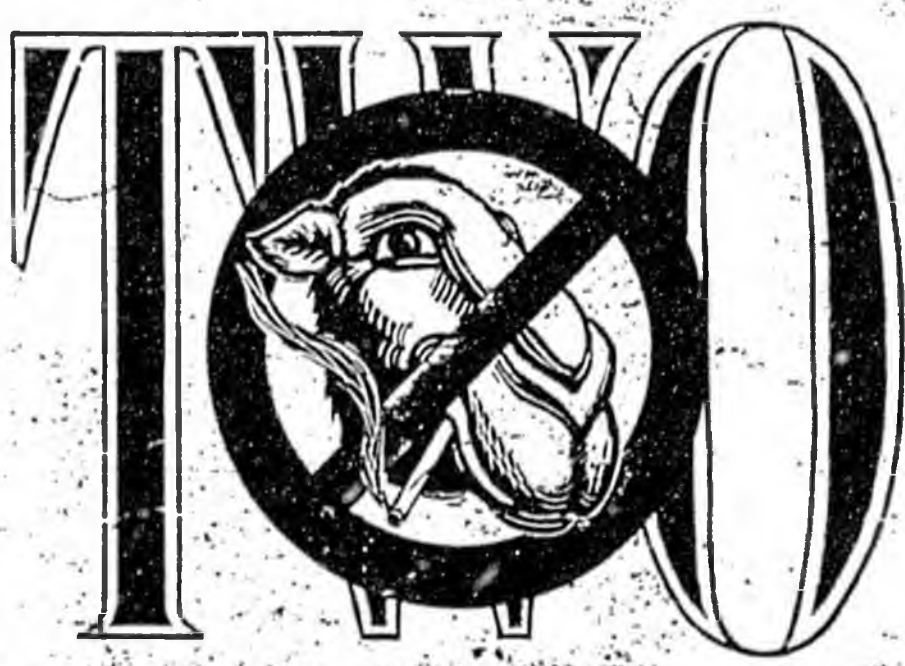
Sources

1. National Cancer Institute. "The Impact of Cigarette Excise Taxes on Smoking Among Children and Adults: Summary Report of a National Cancer Institute Expert Panel." 1993.
2. Calculations based on data from The Tax Burden on Tobacco. The Tobacco Institute, Washington, DC, 1994, vol. 29.

FOR AMERICA

World
Smoking
& Health

WASHINGTON, D.C.



Health Taxes

NO
TWO DOLLARS



NATIONAL HOME OFFICE

JOHN R. SEFFRIN, PhD
Executive Vice President
And Chief Staff Officer

Dear Friend:

One million Americans need your help. If Congress cannot be convinced to adopt a \$2-per-pack increase in the federal excise tax on tobacco rather than the Clinton Administration's proposed 75¢ increase, **one million more Americans will die** from tobacco-related diseases.

President Clinton's decision to propose a 75¢ increase was important and his effort deserves our support. But the issue is now in the hands of Congress, and they are debating it right now. With a million lives at risk, we cannot sit idly by; **we must let Congress know how we feel—today.**

The tobacco industry has money and power. Highly paid tobacco lobbyists are descending on Capitol Hill in droves, spending millions of dollars to defeat us. We don't have the tobacco industry's money, but we do have something tobacco money can't buy—conviction and people power.

Overcoming the tobacco industry's might will require unprecedented effort from all of us. That's why we've added this special section to this edition of **World Smoking & Health**. Inside, you'll find important facts about the need for a tobacco tax increase, tips on how to write to your representatives in Washington, and a sample letter.

Please use this information and join the campaign to save a million lives by writing your representatives in Congress today. Because this issue is so important, I also urge you to ask ten of your friends to do the same.

The difference between 75¢ and \$2 is more than a few cents; it is a matter of life and death. Please write today. You will make a difference. A million lives depend on you.

Sincerely,

A handwritten signature in black ink that reads "John Seffrin".

John Seffrin

P.S. I've already sent my letters to my representatives in Congress. Please join me; we can't afford to waste this historic opportunity to save lives.

Your Letter Will Make A Difference!

Members of Congress pay close attention to constituent opinions, and personal letters are the best way to tell Congress how you feel.

Unfortunately, no one is better at generating loads of mail than the tobacco industry and its lobbyists. Most pro-tobacco industry mail consists of form letters and postcards generated by consulting firms that specialize in generating "astroturf," or artificial grassroots support, in Congress. As a result, even though the vast majority of Americans favor a \$2-per-pack tobacco tax increase, many members of Congress are only hearing from those who are opposed.

Your letter will help balance the scales!

Letter Writing Is Easy

There is no special format, but a few tips will help:

- Write in your own words, on your own personal or business letterhead.
- Keep your message simple. Don't feel you must write a masterpiece or include extensive information. Just tell your Member, briefly, where you stand and why.
- Ask directly whether he or she will support a \$2-per-pack tobacco tax increase, and ask for a reply.
- Keep your message positive, and make sure to thank your Member.
- **The most important thing is just to write and show you care!**
- A sample letter is included.

Other Ways You Can Make A Difference

Call your Members. Call your Representative or Senators' offices and ask for the staff member who handles health issues. Express your views to that person, and ask what your Member's position is. Just call 202-225-3121 and ask for your Member's office. If you do not know the name of one of your Members, the operator will tell you.

Visit with your Members or staff. Members of Congress will usually make every effort to meet with constituents, either in the home district or in Washington, DC. Call either office and ask to make an appointment. Washington, DC staff often have considerable influence over a Member, so do not pass up an opportunity to meet with staff if the Member is unavailable. Make sure to leave a brief fact sheet, and to follow-up with a thank-you letter.

Write letters-to-the-editor. Editors know this is a hot topic and are looking for letters to print. Simple, short letters always have the best chance of being published and are the easiest to write.