Cigarette Tax Increases — Do They Hurt North Carolina's Tobacco Economy?

by Bill Finger

Of all the sacred cows in North Carolina, few have more sanctity than the state cigarette tax. Until 1969, North Carolina was the only state that didn't tap the excise tax on cigarettes as a source of revenue. And then, only a spirited effort by Gov. Robert Scott to obtain new revenue sources for public kindergartens provided a noble context – free education for young children – in which a two-cent-per-pack tax could be placed on North Carolina's most cherished product.

But the new cigarette tax came back to haunt Scott. In 1980, Scott ran against the incumbent James B. Hunt, Jr. for governor. In a four-page campaign flier sent to 23,000 tobacco farmers, Hunt reminded these voters that Scott had proposed the cigarette tax. The Hunt flier quoted Scott's defense, made during the 1969 debate: "It's time to destroy the myth that tobacco is king in North Carolina." Since winning the re-election in 1980, Hunt has maintained his firm stance against any increase in cigarette taxes – at the state and federal levels – even as the revenue landscape has darkened.

In 1981, the surplus state budgets of the early 1970s were only a pleasant memory. The state's revenue picture was bleak, especially regarding the Highway Fund. To increase revenues, the General Assembly considered raising several kinds of taxes, including those on cigarettes and gasoline. The cigarette tax emerged as a possibility, particularly among the urban delegations, because as Rep. Joe Hackney (D-Orange) put it, "It's a source of income that hasn't been tapped."

Rep. Ruth Easterling (D-Mecklenburg) and Rep. D.R. Mauney (D-Gaston) introduced a bill to increase the cigarette tax, but the House Finance Committee defeated it on a roll-call vote (15-37).[1] Four days later, a minority report on the bill came before the full House. The House refused to consider the minority report – an action which did not amount to a vote on the merits of the bill itself – by a 75-41 vote. Meanwhile, to bolster the Highway Fund, Gov. Hunt chose the gasoline tax route, unpopular enough itself, and engineered a major public campaign to gain support for raising the gas tax three cents per gallon, an action eventually taken by the General Assembly in June 1981.

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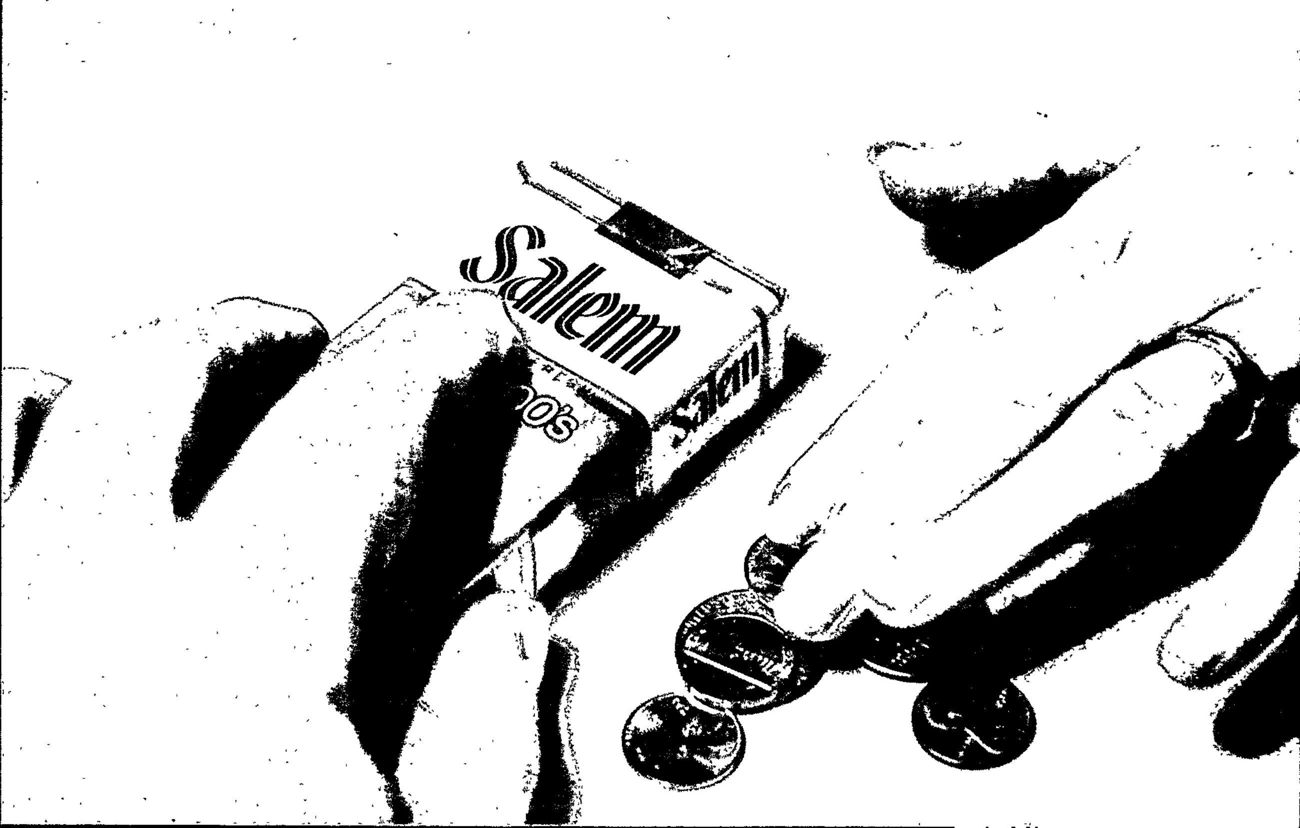
Soon after the General Assembly defeated the cigarette tax proposal in 1981, a tax increase perceived by tobacco-industry forces as far more serious surfaced. In 1982, as federal deficits reached record levels, the Reagan administration and the Congress began searching for ways to increase federal revenues. A bipartisan coalition emerged in Congress to support some tax increases, especially excise taxes, and to close some tax loopholes. The Senate Finance Committee, chaired by Sen. Robert Dole (R-Ka.), carved out a "tax equity" package that included a doubling of the cigarette tax from 8 to 16 cents per pack. A series of complex votes in the Senate followed, including a crucial 50-47 vote in favor of the package, where the two North Carolina senators, Republicans Jesse Helms and John East, both switched to an affirmative vote at the last minute. After a House-Senate conference committee ironed out the details, in August 1982 Congress passed the final package, which doubled the federal tax on cigarettes, effective from January 1, 1983, to September 30, 1985.

Tobacco spokespersons called the boost "devastating" to North Carolina. For example, Reggie Lester, head of the Tobacco Growers Information Committee, estimated that nationwide cigarette consumption would drop 5 to 10 percent, causing a significant reduction in demand for North Carolina tobacco. "Obviously, we think that's not a good idea because tobacco growers are in the business to produce leaf for smoking," Lester said.

Democratic Party officials, led by Gov. Hunt, labeled the tax "catastrophic." To highlight the votes by Helms and East, the Democrats purchased full-page advertisements in several state papers, dubbing the two Republicans the "Tobacco Tax Twins." At a press conference held by Democratic Party officials, state Rep. William T. (Billy) Watkins (D-Granville) summarized the tobacco-is-king philosophy this way: "When you do something to harm tobacco in North Carolina, it's almost like harming your own child."

Child abuse and partisan politics aside, how damaging in fact is a cigarette tax increase – state or federal – to North Carolina? This is really a two-part question. First, when cigarette costs increase, specifically those caused by state or federal taxes, does cigarette consumption decline? Second, does reduced cigarette consumption have a negative impact on the North Carolina tobacco economy – manufacturing jobs, tobacco farmers, and related businesses (warehouses, auctioneers,



etc.)? Finally, if the impact is negative, what choices do policymakers have regarding future consideration of cigarette taxes?

Cigarette Prices and Consumption Patterns

Since 1951, the federal excise tax has remained constant at eight cents per pack. Meanwhile, state taxes have increased from an average of 2.8 cents per pack in 1951 to 13.4 cents per pack in 1981. (See chart on pages 16-17 for tax levels in each state.) During this 30-year period, combined federal and state excise taxes on cigarettes approximately doubled, from 10.8 to 21.4 cents per pack. The recent federal tax jump and new state tax increases will raise the combined average tax to 30.4 cents per pack by 1983, according to the U.S. Department of Treasury. "Even including the recent tax changes," explains Eric Toder, financial economist for the Treasury Department, "the combined tax per pack of cigarettes is still lower in real terms than it was 30 years ago."[2]

Because the federal tax remained unchanged for so long, no basis for analyzing the new federal tax increase in relationship to consumption patterns exists. But analysts generally agree that sharp increases in state taxes have caused some decline in consumption. "A review of historical data shows that most states experienced a drop in tax-paid sales when a sizable hike occurred in state cigarette excise taxes," says U.S. Department of Agriculture (USDA) economist Robert Miller.[3]

The Tobacco Institute, which publishes annual estimates on average cigarette prices for each state, reports that in November 1982 the average price nationwide was about 81 cents per pack. Thus the eight-cent-per-pack federal tax increase would result in a 10 percent price increase nationwide (8 cents ÷ 81 cents).[4] How much will a 10 percent price increase cause cigarette consumption to decline?

To determine shifts in consumption caused by price changes, economists measure the ratio of change in quantity demanded (bought) to change in price. This calculation, called price elasticity, varies among products and even among different types of cigarette smokers. The price elasticity figure used is of critical importance in estimating consumption patterns. In the recent debate over the federal tax increase, virtually all viewpoints conceded some negative price elasticity – i.e., a decline in consumption with an increase in price. But the estimated level of elasticity varied a great deal.

At the low end of the scale, at a -.4 price elasticity, were Eric Toder of the U.S. Treasury Department and Peter Enderlin of the Smith Barney investment firm. "The price elasticity of demand for cigarettes is very low," Enderlin told *Forbes* magazine. "Generally a 1 percent increase in price will reduce demand by 0.4 percent, all other things being equal." Toder used the -.4 figure in his report to the National Tobacco Tax Association, "Impact of 1982 Tax Law Change on State Cigarette Tax Revenues."[5]

Researchers Eugene Lewit and Douglas Coate, whose study, "The Potential for Using Excise Taxes to Reduce Smoking," became a basic reference during the recent tax debate, found a -.45 price elasticity for *adult* smokers.[6] But Lewit and Choate reported a much higher level for *teenage* smokers, as Sen. Robert Dole explained in quoting their research on the Senate floor: "The study indicates that a 10 percent increase in the per-pack price, that is about 8 cents, would reduce the teenage smoking participation rate by 12 percent [-1.2 elasticity] and reduce the number of cigarettes smoked by teenagers by 14 percent [-1.4 elasticity]."[7]

USDA economist Robert Miller, a long-time tobacco analyst and former editor of *Tobacco Situation,* in a paper for the Third World Conference on Smoking and Health in 1975, used a -.5 elasticity in calculating various price and tax changes.[8] Finally, at the high end of the scale, at a -.7 price elasticity, was The Tobacco Institute, the cigarette manufacturers' trade association, which lobbied against the tax increase in Congress. (The -.7 figure was the group's "high-range" estimate.) The Tobacco Institute estimated that the 10 percent price increase would cause at most a 7 percent (-.7 price elasticity) decline in 1983 consumption.[9]

Even the highest estimate indicates the relative "inelasticity" of cigarette demand as a function of price. The most dramatic example of price *inelasticity* is a "necessity" product like salt; if the price of salt increases significantly, say 30 percent, consumption might only decline 3 percent (-.1 elasticity). At the other extreme, with very high *elasticity* is a product one can do without, like hand calculators. When the price of calculators plummeted, say by 100 percent, the quantity demanded skyrocketed as much as 10 times that price drop (+10.0 price elasticity). In terms of price elasticity, cigarettes are much more like salt than like calculators.

Within these various price-elasticity calculations, some significant findings stand out. The Lewit and Coate study, published by the National Bureau of Economic Research, represents the most revealing effort. Utilizing the recently released 1976 Health Interview Survey, which gathered data on 28,033 individuals between the ages of 20 and 74 from 430 sites nationwide, Lewit and Coate found "that price has its greatest effect on the smoking behavior of young males and that it operates primarily on the decision to begin smoking . . . rather than via adjustments in the quantity of cigarettes smoked by smokers."

In the short run, these analysts concluded, an excise tax would have a relatively small impact on cigarette consumption. But the tax increase could have a major impact in the long run, "if maintained in real terms," they said, because within successive new generations of teenagers, fewer would begin smoking. (Researchers generally agree that lifelong smoking patterns are usually established in the teens and early 20s.)[10]

To answer the first question posed in this article, then: A cigarette tax increase will indeed cause some decline in consumption. But the amount of consumption decline can only be measured in the abstract, using price elasticity figures, which vary significantly among economists. Moreover, the extent of the consumption drop remains an abstract concept unless viewed in the context of other complex variables – international cigarette

Table 1. Cigarette Taxes in the South: Rates and Revenues

State	1982 State Tax Rate (cents per pack)	1981 Net State Cigarette Tax Collections (1000 of $)
Alabama	16 cents	$ 67,460
Arkansas	17.75	50,232
Florida	21	266,186
Georgia	12	82,983
Kentucky	3	21,726
Louisiana	11	62,594
Maryland	13	72,711
Mississippi	11	31,625
North Carolina	2	17,997
South Carolina	7	28,264
Tennessee	13	75,346
Texas	18.5	325,392
Virginia	2.5	17,866
West Virginia	17	38,349
Highest States		
Wisconsin (tax rate)	25	88,219
New York (tax collections)	15	338,421
Southern Average	11.77	82,767
U.S. Average	14.23 cents	$75,503

Source: *The Tax Burden on Tobacco,* Tobacco Tax Council, Vol. 16, 1981, and updates from Tobacco Tax Council.

sales by the American companies, the exporting of high-grade American tobacco, the diversified nature of the tobacco companies themselves, and many other factors. Considering these additional variables brings us to the second question: Will a decline in consumption of cigarettes in the United States – however uncertain the level – in turn cause a hardship on the tobacco industry in North Carolina?

Does Reduced Consumption Hurt North Carolina?

The polar views on this question come, ironically, from within the financial community. The Tobacco Institute contends the increase in the federal tax could have an adverse effect in North Carolina in 1983 totaling $370 million in revenue losses (i.e., not lost profits), including $168 million to manufacturers, $130 million to in- and out-of-state supporting businesses (warehouses, etc.), $58 million to tobacco growers, and $2 million in lost state revenues from the state cigarette tax.

Forbes magazine and E.F. Hutton take the opposite view – that the tax won't hurt the companies' profits at all. "The proposed tax would at most reduce demand by four percent or so," *Forbes* reported on January 4, 1982. "That's not deadly in an industry where operating profit margins run as high as 25 percent. And, of course, since a fair amount of the industry is highly diversified, the effect on overall profits might be hard to discern. Even Philip Morris, the least diversified of the group, wouldn't be hurt much. Its unit growth should more than make up for the slight dislocation of a new excise tax."

George Thompson, writing for the July 30, 1982, issue of E.F. Hutton's "Investment Sum-

Table 2. Impact of Eight-Cent-Per-Pack Federal Cigarette Tax Increase:

State	Weighted Average Price Per Pack (Nov. 1981)[1]	1982 State Tax Rate (cents per pack)[2]	Calendar Year 1984 – Impact of Federal Increase[3]	
			Loss in Cig. Sales (mil. packs)	Loss in Cig. Tax Revenues (mil. $)
1. Alabama	73.1* cents	16 cents	-18.7	$ -3.0
2. Alaska	72.8	8	- 2.2	-0.2
3. Arizona	73.3	13	-12.4	-1.6
4. Arkansas	72.1	17.75	-12.7	-2.3
5. California	72.8	10	-114.3	-11.4
6. Colorado	61.4	10	-23.2	-2.3
7. Connecticut	85.6	21	- 9.4	-2.0
8. Delaware	74.1	14	- 3.6	-0.5
9. District of Columbia	74.8	13	- 3.2	-0.4
10. Florida	79.0	21	-44.7	-9.4
11. Georgia	67.8	12	-36.2	-4.3
12. Hawaii	75.5	19.5	- 2.9	-0.6
13. Idaho	67.6	9.1	- 5.2	-0.5
14. Illinois	69.6*	12	-67.9	-8.1
15. Indiana	65.1	10.5	-43.1	-4.5
16. Iowa	72.8	18	-16.3	-2.9
17. Kansas	65.1	11	-16.8	-1.8
18. Kentucky	56.3	3	-52.6	-1.6
19. Louisiana	70.3	11	-27.1	-3.0
20. Maine	69.7	16	- 7.4	-1.2
21. Maryland	65.4	13	-31.1	-4.0
22. Massachusetts	78.1	21	-25.2	-5.3
23. Michigan	68.0	21	-41.4	-8.7
24. Minnesota	71.7	18	-21.1	-3.8
25. Mississippi	69.2	11	-14.8	-1.6

FOOTNOTES TO TABLE 2:

[1] Weighted average price per pack includes the excise state tax. The average price does not, however, include cigarette taxes that are imposed by one or more municipalities in the six states identified in this column by an asterisk. The source for this column is *The Tax Burden on Tobacco,* Tobacco Tax Council, Vol. 16, 1981, p. 81.

[2] Nine of the states increased their cigarette tax this year: Michigan, Missouri, Nebraska, New Jersey, Rhode Island, Oregon, Utah, Washington, and Wisconsin. The Tobacco Institute provided the latest state-by-state tax-rate data.

[3] Source for these two columns is "Impact of 1982 Tax Law Change on State Cigarette Tax Revenues" by

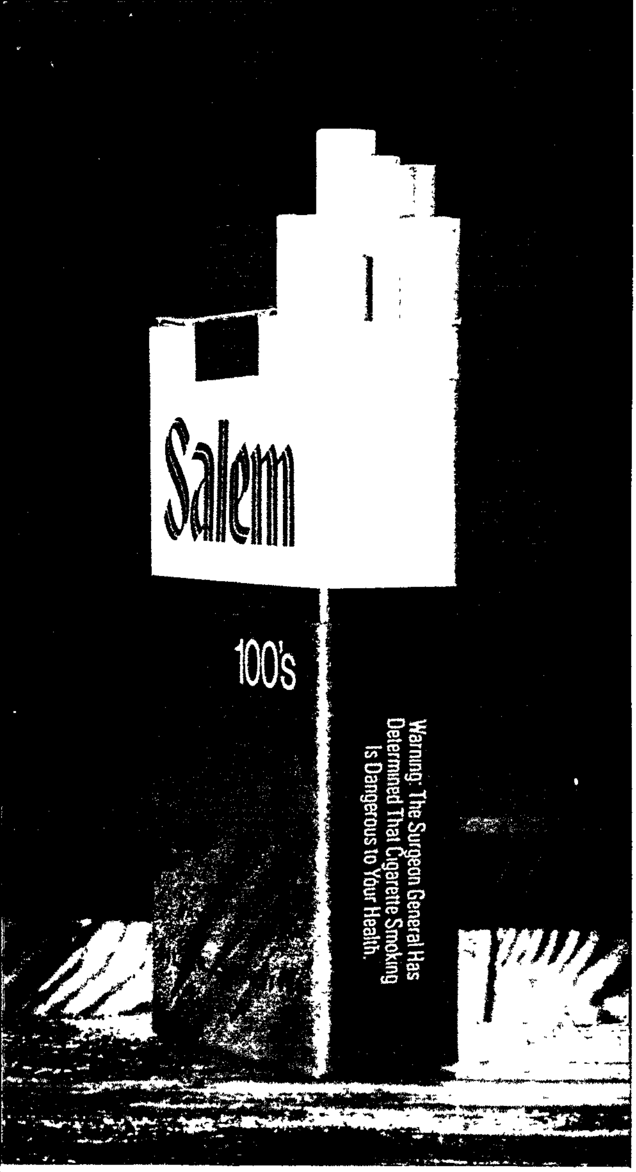
mary," analyzes the changes for potential investors like this: "Although excise tax increases on cigarettes have tended to affect unit volume in international markets, domestic price increases averaging 8.5 percent annually over the last three years *appear to have had* little or no effect on cigarette demand" (emphasis added). In the E.F. Hutton summary prognostication, the typeface changes to bold: **"Because of the pricing flexibility that exists in the cigarette industry, we believe that cigarette companies will be able to pass along to the consumers the excise tax increase without materially impacting unit volume; therefore, we are not changing any of our earnings estimates."**

In its estimates, The Tobacco Institute focuses exclusively on North Carolina and on revenue losses, and hence does not parallel precisely the national financial prognostications of *Forbes* and E.F. Hutton. Even so, the comparison is telling in at least three ways. First, Reynolds and Philip Morris, with almost two-thirds of the domestic cigarette market, are also the major manufacturers based in North Carolina; thus, the trends in the overall domestic market generally parallel the fate of the tobacco manufacturing concerns most important to this state. Second, The Tobacco Institute, as the manufacturers' trade association, has a professional obligation to present data in a way most supportive of the industry's opposition to any tax increase; *Forbes* and E.F. Hutton, on the other hand, owe their readers and investors a prognostication that is as objective as possible. Finally, the *Forbes* and E.F. Hutton estimates take into account the many variables involved, from domestic and international growth patterns to product diversification within the company. The Tobacco Institute estimates do not take into account such factors as projected growth in

U.S. Treasury Department Estimates

State	Weighted Average Price Per Pack (Nov. 1981)[1]	1982 State Tax Rate (cents per pack)[2]	Calendar Year 1984 – Impact of Federal Increase[3]: Loss in Cig. Sales (mil. packs)	Loss in Cig. Tax Revenues (mil. $)
26. Missouri	64.7* cents	13 cents	-28.9	$-3.8
27. Montana	65.7	12	- 4.9	-0.6
28. Nebraska	69.7	18	- 7.1	1.3
29. Nevada	71.6	10	- 5.9	-0.6
30. New Hampshire	67.0	12	-11.4	-1.4
31. New Jersey	76.2	24	-28.1	-6.7
32. New Mexico	69.4	12	- 6.2	-0.7
33. New York	72.5*	15	-88.1	-13.2
34. North Carolina	55.5	2	-74.0	-1.5
35. North Dakota	67.8	12	- 4.1	-0.4
36. Ohio	68.3	14	-69.0	-9.7
37. Oklahoma	71.7	18	-19.0	-3.4
38. Oregon	62.4	19	-10.5	-2.0
39. Pennsylvania	69.8	18	-69.5	-12.5
40. Rhode Island	71.6	23	- 4.9	-1.1
41. South Carolina	61.9	7	-24.7	-1.7
42. South Dakota	68.0	15	- 3.9	-0.6
43. Tennessee	68.3*	13	-29.0	-3.8
44. Texas	73.8	18.5	-75.6	-14.0
45. Utah	68.1	12	- 5.3	-0.6
46. Vermont	66.8	12	- 4.3	-0.5
47. Virginia	56.4*	2.5	-51.1	-1.3
48. Washington	80.3	23	-15.1	-3.5
49. West Virginia	75.1	17	- 9.3	-1.6
50. Wisconsin	75.0	25	-17.3	-4.3
51. Wyoming	64.3	8	- 4.1	-0.3

Eric Toder of the U.S. Department of the Treasury, paper for National Tobacco Tax Association annual meeting, August 31, 1982. **In estimating the impact of the federal tax increase on cigarette sales, the U.S. Treasury Department assumed a -.4 price elasticity of demand** (see article text, "Cigarette Prices and Consumption Patterns" section, for discussion of the concept of elasticity). On page 4 of the Treasury Department report, Toder explains that he used calendar year 1984 for these calculations "to avoid the complexities resulting from transitional effects (such as advance purchases to avoid the higher tax) in the first year of the higher rate." The amount of lost revenues is derived by multiplying the state tax rate (per pack) x the loss in cigarette sales (per pack).



foreign markets and diversification, says Tobacco Institute economist E.J. Battison.

The comparisons above address only the extent to which the *manufacturers* themselves would be hurt. Calculating the impact of the federal tax increase on the N.C. *tobacco farmers* and the related businesses (warehouses, etc.) is a more difficult task. A number of interrelated factors are currently affecting the tobacco farmer's situation in North Carolina. The impact of the cigarette tax increase cannot be isolated from three important trends.

1. **The quantity of tobacco held in inventories by the Flue-Cured Tobacco Cooperative Stabilization Corporation – tobacco which has not sold on the open market – is increasing.** By the end of 1980, Stabilization will be holding some 660 million pounds of tobacco, the highest total since the early 1970s. Under the federal price support program, when a grade of tobacco does not sell on the open market at the federal price support level or higher, the Stabilization Cooperative, using federal loan funds, *must acquire* the farmer's tobacco at the price support level. Before 1982, the federal government absorbed any losses that the Stabilization Cooperative suffered from selling its inventories at prices below what the Cooperative had to pay farmers. But the farmers benefited from any gains. The farmers had a built-in, no-risk market. But all that has changed.

Just a month before the tax increase passed Congress, Congress approved a major overhaul of the federal price-support system, "The No Net Cost Tobacco Program Act of 1982."[11] As a result, tobacco farmers in 1982 had to market their product under a modified system that included new farmer assessments to the "no-net-cost" fund and a scaling down of price support increases below the inflation rate. Under this new system, one-fourth of the 1982 tobacco crop went to the Stabilization Cooperative – the highest percentage of any year's crop in history – rather than being bought by the private sector.

Most importantly, perhaps, under the no-net-cost program, the federal government will not absorb any losses the Stabilization Cooperative may incur in selling inventories. "If there are any losses, the cost must be borne ultimately by the farmers through the assessments mandated by the no-net-cost program," explains Dr. Charles Pugh, extension economist at North Carolina State University. Even so, the federal government may minimize the risk of any loan defaults from Stabilization by reducing the amount of leaf that can be grown in future years – i.e., by reducing quotas. Growers, as well as governmental and manufacturing officials, are now speculating, therefore, that the large amount of 1982 crop in Stabilization, waiting to be sold on a future year's market, could well result in sharply reduced tobacco quotas for 1983. If reduced, N.C. tobacco farmers would be hurt.

Even such knowledgeable experts as Pugh confess confusion over what caused the poor open-market sales in 1982. Pugh speculates that any or all of four separate developments could have resulted in the poor 1982 sales: a) a banner 1981 crop year, which allowed companies to warehouse tobacco for use in future years; b) tobacco buyers using Stabilization as "a storage reservoir," as Pugh puts it, where they can always turn for tobacco, rather than tying up funds now, when money is tight; c) an anticipation of even further administrative or legislative changes in the tobacco program; and d) the increased federal tax.

2. **International tobacco is now competitive**

with American leaf. Tobacco from Zimbabwe, Brazil, the Philippines, and other countries is fast approaching the quality of the U.S. leaf but is much cheaper than the American leaf. Domestic cigarette manufacturers have increased the percentage of foreign tobacco in U.S. cigarettes from 11 percent in 1965 to 30 percent in 1980.[12] As the portion of foreign leaf in domestic cigarettes increases, American companies depend less and less on N.C. tobacco.

3. **The composition of the American cigarette is rapidly changing.** In the early 1960s, U.S. flue-cured tobacco – and North Carolina is the leading producer – accounted for more than half the content of U.S. cigarettes. By 1979, that portion had dropped to 39 percent.[13] This reduction is due to two main factors: the growing use of foreign tobacco and the growing popularity of low-tar cigarettes, which use lower quantities of tobacco (foreign or domestic) than the traditional cigarettes.

Tobacco farmers do indeed face some uncertain years ahead, but an increased cigarette tax is only one of many factors affecting their livelihood. Moreover, fewer and fewer North Carolinians benefit from the sale of N.C. tobacco. "In North Carolina, the small farm gave way to 'agri-business' during the 1970s, and even tobacco, the last major cash crop still grown on small farms, was affected," writes Barlow Herget in *The Tobacco Industry in Transition.*[14] From 1978 to 1979, Herget points out, the number of North Carolinians growing tobacco declined by 12 percent, from 52,000 to 49,000. And this drop was part of a much larger scale displacement of tobacco workers.

The USDA reported in 1981 that the number of flue-cured harvest workers throughout the tobacco belt declined from 325,000 in 1972 to 211,000 in 1979, an average drop of over 16,000 workers per year. "The greatest harvest labor reduction occurred in the Coastal Plain of North Carolina – the most concentrated production region," reported USDA economist Verner Grise. "The decline occurred because of the adoption of labor-saving harvest technology."[15]

How will declining cigarette consumption, caused by a tax increase, affect the tobacco economy in North Carolina? Financial analysts cannot agree on the effects of the tax on the manufacturing companies. And regarding its effect on the farmer, the array of forces sweeping through the tobacco belt – from as far away as Zimbabwe and as near to home as the new no-net-cost farmer assessments – make even estimates, much less precise calculations, speculative at best.

But even if skilled financiers disagree and complex farm-related variables defy simple breakdowns, policymakers must make judgments regarding cigarette tax increases. In 1985, the eight-cents-per-pack federal tax increase is scheduled to expire. A new Congressional debate will decide the future level of the tax. Meanwhile, North Carolina has not raised its cigarette tax for 13 years, despite a growing revenue pinch and periodic complaints from the northeast that the low N.C. tax encourages cigarette smuggling.

Beyond Tobacco Politics

In June of 1982, the N.C. Office of State Budget and Management released the results of its North Carolina Citizen Survey, a telephone poll of

800 adults across the state. The survey asked, among other questions, which taxes a person would be willing to raise if state revenues had to be increased. Seventy-eight percent had no objection to an increased cigarette tax. Among the six taxes on which the citizens were questioned, only taxes on alcoholic beverages received a higher rate of response (87 percent).

If more than three of every four North Carolinians are willing to increase the state cigarette tax, why is the General Assembly so reluctant to consider increasing the tax? In 1981, when Rep. Easterling and Rep. Mauney proposed a cigarette tax increase, they first linked their proposal to the state's most pressing and visible fiscal need – revenues for highway construction and maintenance – and required in the bill that 75 percent of the revenues go to the Highway Fund. By June 11, when the bill was considered by the House Finance Committee, the gasoline tax increase (targeted for the Highway Fund) had already passed the Senate and appeared to be headed for approval in the House. Rep. Mauney then amended the bill in committee, omitting the sections that linked the cigarette tax increase to the Highway Fund and making the bill instead a straight three-cent-per-pack increase. Committee action on the bill, then, provides a clear measurement of the degree of support for a cigarette tax increase itself, not diluted by concerns for the ailing Highway Fund.

In the committee debate, two people spoke to the merits of the bill. Tom White – a prominent political figure in the state and in 1981 a lobbyist for the Tobacco Tax Council – spoke against the increase. White, a state representative for many years from the tobacco-belt Lenoir County and former chairman of the Advisory Budget Commission, ranked as the third most influential lobbyist in the 1981 General Assembly.[16] Rep. Ben Tison, (D-Mecklenburg), like Easterling and Mauney, from an urban district with little interest in tobacco, spoke in favor of the bill. The committee, whether persuaded by White's remarks or merely aware of the sanctity of this sacred cow, voted the cigarette tax increase down, 37-15. Of the 15 legislators voting for the increase, 11 came from urban areas. Even the urban delegates were split though – 9 of 20 voted against the increase. Because the full House never voted on the tax increase itself – the House voted 75-41 against putting the committee's minority report on the House calendar – the committee vote provides the clearest indication of voting patterns on this issue.

Despite the doubling of the federal tax in January 1983, the state cigarette tax might come up again for review in 1983. Since 1969, when the tax was born, the percent of state revenues from the state cigarette tax have dropped from 1.3 percent to 0.6 percent. At the same time, the state needs to find new sources of revenue. Why shouldn't the state turn to the cigarette tax, the 15 legislators on the House Finance Committee and many of the 41 on the House floor seemed to be asking in 1981, especially since the tax hasn't changed since 1969?

The state's national image might also prompt a review of the two-cent-per-pack tax. In the middle and late 1970s, cigarette smuggling became a highly publicized national problem. In news reports and in Congressional hearings, most analysts laid the blame for the smuggling on law enforcement procedures and the large tax differentials between the low-tax states, especially North Carolina and Virginia, and the high-tax states, like New York and Connecticut. In 1978, Congress passed the Contraband Cigarette Act, which made smuggling cigarettes across state lines to avoid paying taxes in high-tax states a felony. Smuggling has since declined sharply.

But enforcement of the 1978 law has recently become a matter of concern. The U.S. Bureau of Alcohol, Tobacco, and Firearms, which enforces the smuggling act, suffered sharp budget cuts in 1981-82. "We have cut down on the enforcement of the smuggling act some," says Melvin Bruce, tobacco advisor of this U.S. Bureau, a part of the Treasury Department. Despite the cutbacks, Bruce says he expects the agency "to remain in the program sufficiently to contain smuggling." But if smuggling does begin to increase, other states will again call for an increase in cigarette taxes in states like North Carolina.

How will state legislators respond to a proposal to increase the state cigarette tax? And how will the state's representatives in Washington respond to proposals to renew the federal tax increase? Quoting facts and figures – while an essential step in diffusing the emotionalism on this issue – remains an uncertain enterprise. An increase in cigarette taxes will probably reduce domestic consumption, but the extent of the reduced consumption is uncertain. More importantly, the degree to which reduced consumption (caused by tax increases) would damage the N.C. tobacco economy is even more difficult to determine.

The new federal price support program that took effect in 1982 might well result in reduced quotas for N.C. farmers. Meanwhile, international buying and price trends have already caused reduced dependence on N.C. tobacco. A research base of information simply does not exist for determining to what extent the cigarette price increase – apart from such factors as these – will hurt the state's tobacco economy. This important area of research desperately needs to be tackled, especially before 1985, when the federal increase will again be under debate.

In the 1984 U.S. Senate race, both Jesse Helms and Jim Hunt may continue to stump the tobacco-is-king platform. The political exigencies of that high-profile and highly charged race will be extreme indeed. But political advisors, even where the stakes are high, are beginning to admit that the tobacco issue demands some candor as well as pragmatism. "Of course in North Carolina tobacco is sacrosanct and we recognize the importance of it," Helms' administrative aide Clint Fuller explained following the controversial Helms vote on the federal tax increase. "You can't say anything against tobacco or do anything against tobacco without bringing the house down. It's like Social Security on a national level." But Fuller, downplaying any damage the Helms vote might have caused, went on to say, "I can't see this being any real problem for the Senator. We hope the people will understand it."

Perhaps "the people" can indeed understand. When it comes to sacred cows – like the cigarette tax – politicians can do well to listen to what the citizenry is saying. Three out of four North Carolinians do not oppose a state cigarette tax increase. The time just might have come to turn a long and valued sacred cow into the pastures to fend for itself. □

FOOTNOTES:

[1] House Bill 128 (1981 Session of the N.C. General Assembly), as amended. House Finance Committee minutes, June 12, 1981.

[2] Eric Toder, U.S. Department of the Treasury, "Impact of 1982 Tax Law Change on State Cigarette Tax Revenues," paper prepared for 56th Annual Meeting of National Tobacco Tax Association, August 31, 1982, p. 2.

[3] Robert H. Miller, U.S. Department of Agriculture, "Cigarettes: Consumption Situation and Outlook," paper prepared for 56th Annual Meeting, National Tobacco Tax Association, August 31, 1982, p.7.

[4] The federal tax increase goes into effect on January 1, 1983. The average price as of January 1983 provides the base price from which to determine the percent increase, but making such an estimate is difficult. The November 1981 average price, published by The Tobacco Institute, was the best figure available during the Congressional debate from which estimates could be made. The November 1982 average price was available before *N.C. Insight* went to press. R.J. Reynolds, Philip Morris, and Lorillard raised their prices three-to-four cents per pack in October 1982 in an effort to make the price increase caused by the new tax "more gradual," as Reynolds spokesman T. Nat Walker put it. During the Congressional debate and at this writing, then, the exact percentage increase caused by the new federal tax could not be determined. But researchers and the various sides in the tax-increase controversy generally agreed that the tax increase would cause approximately a 10-percent price increase. (See text, three paragraphs following the paragraph referenced here, for statement by U.S. Sen. Robert Dole on the Senate floor.)

[5] Toder, op. cit., p. 3.

[6] Eugene M. Lewit and Douglas Coate, "The Potential for Using Excise Taxes to Reduce Smoking," National Bureau of Economic Research, Inc., Working Paper No. 764, February 1982, Abstract.

[7] *Congressional Record – Senate,* July 21, 1982, Vol. 128, No. 95, p. S 8814.

[8] Robert H. Miller, "Pricing Out Tobacco: Price as a Factor in Cigarette Consumption" in *Health Consequences, Education, Cessation Activities, and Governmental Action,* the Proceedings of the 3rd World Conference on Smoking and Health, June 1975, p. 825.

[9] Telephone interview with E.J. Battison, economist at The Tobacco Institute, August 23, 1982.

[10] "Not surprisingly, the acquisition of the smoking habit typically occurs during adolescence, and early experimentation with tobacco occurs within the context of the peer group," wrote E.L. Wynder and D. Hoffman in *The New England Journal of Medicine,* April 19, 1979, p. 894. See also: A. McKennell, "Implications for Health Education of Social Influences on Smoking," *American Journal of Public Health,* Vol. 59, 1969, pp. 1998-2004; and A.B. Palmer, "Some Variables Contributing to the Onset of Cigarette Smoking Among Junior High School Students," *Social Science and Medicine,* Vol. 4, 1970, pp. 359-366.

[11] P.L. 97-218, "The No Net Cost Tobacco Program Act of 1982," signed into law on July 20, 1982.

[12] Joseph A. Kinney, "Tobacco's Global Economy: Is North Carolina Losing?" in *The Tobacco Industry in Transition,* A N.C. Center for Public Policy Research Book, Lexington Books, 1981, p. 119. (To order a copy of this book, send a check for $23.95 to the N.C. Center, P.O. Box 430, Raleigh, N.C. 27602.)

[13] Hugh C. Kiger, "Open Trade and Modernized Tobacco Program: The Keys to an Expanded U.S. Flue-Cured World Market" in *The Tobacco Industry in Transition,* p. 133.

[14] Barlow Herget, "Industrial Growth: An Alternative for North Carolina's Tobacco Farmers," in *The Tobacco Industry in Transition,* p. 103.

[15] Verner N. Grise, U.S. Department of Agriculture, "Flue-Cured Tobacco Farming: Structural Characteristics, Labor Use, and Mechanization," presented at the 29th Tobacco Workers Conference, Lexington, Ky., January 21, 1981.

[16] *Article II: A Guide to the N.C. Legislature 1981-1982,* N.C. Center for Public Policy Research, June 1982, p. 214.