

Two Bucks Will Finance Health Care for 10 Million

By Jeffrey E. Harris

THAT IS THE fate of the Clinton Administration's again-delayed program to reform the country's health care system will hinge on sources of revenue. Cigarettes, which are detrimental to the health of Americans, are likely to enhance the health of the program.

A \$2 per pack increase in the Federal excise tax on cigarettes, which is now 24 cents a pack, is under consideration. But Government economists cannot easily predict its impact. An extra \$2 would bring the current average retail price to \$4 a pack. Would smoking rates drop so steeply that cigarette revenues would fall?

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No. For the rest of the 1990's, higher cigarette taxes almost certainly would continue to add billions of dollars to the Treasury even though smoking rates would surely decline.

The best way to try to predict the impact of a major tax increase on cigarettes is to look to Canada, where cigarette taxes and prices have been rising much faster than ours.

From 1984 through 1992, the average price of Canadian cigarettes rose 114 percent over the inflation rate, yet cigarette consumption dropped, by only 27 percent, according to my calculations. (Canadians pay an average of \$4.41, in U.S. dollars, for a pack.)

Last year, 24.9 billion packs of cigarettes were bought in the United States. Based on Canada's record, I would reduce sales by 25 percent, to about 19 billion packs. Subtracting lost income taxes, I calculate that a \$2 hike would add \$28 billion annually to the Treasury.

The Congressional Joint Committee on Taxation has forecast that a \$2 increase would yield \$18 billion a

year; this low estimate presupposes that smoking rates would drop by 50 percent, which is unrealistic.

If the \$2 hike actually raised \$28 billion in revenue, that would be enough to pay for the health care of 10 million Americans. With 37 million

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uninsured, that is a sizable chunk of the cost of universal health care coverage.

Critics might argue that U.S. cigarette manufacturers would not pass the entire \$2 tax increase to consumers — that discount and generic cigarettes would become even more popular. If so, smoking rates would fall less than I predict and, again, Fed-

eral revenues would be even higher. Why wouldn't the bottom drop out of the domestic cigarette market?

After all, at a \$4 price per pack the typical smoker would spend more than \$2,000 yearly on cigarettes. Here's why: It's hard to quit smoking. After a single attempt, the typical smoker has no more than an 8 percent chance of achieving long-term abstinence. When prices go up, many highly motivated smokers may decide to kick the habit and do so successfully. But the most addicted least price-sensitive smokers will go on as before.

Overall, the demand for cigarettes is just too unresponsive to price to expect a \$2 tax to cause revenues to fall. For a \$2 tax to yield no more revenue than a \$1 tax, more than half of today's smokers would have to quit.

An inaccurate forecast of cigarette tax revenues might be hazardous to the health of a great many Americans. But genuine reform could be in the offing if the White House realized that there just might be enough money to foot the bill. □