

NLWJC - Kagan

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**Tobacco-Settlement: Treasury
Youth Smoking Report**

Tab - re - from Treasury youth
smoking report



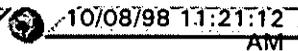
Cynthia A. Rice

10/08/98 11:22:53 AM

Record Type: Record

To: Laura Emmett/WHO/EOP
cc:
Subject: email to Elena

----- Forwarded by Cynthia A. Rice/OPD/EOP on 10/08/98 11:23 AM -----



Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP
cc: Sarah A. Bianchi/OPD/EOP, Cynthia A. Rice/OPD/EOP
Subject: today's MMWR on youth smoking

Today's MMWR (embargoed until 5pm today) finds that more than 3000 children begin smoking regularly everyday. While the actual number is estimated to be 3359, the confidence interval is such that CDC is saying "more than" 3000 (compared to the "nearly" 3000 that they used to say). This translates to 1.2 million kids each year becoming daily smokers. What is perhaps more newsworthy is their finding that between 1988 and 1996, the number of children who became daily smokers increased by 42 percent -- if the rate of smoking had remained constant during this time, then 1.5 million fewer children would have become regular smokers by 1996.



We are doing a weekly item on this.

Tobacco-Treatment Youth Smoking
Report

Cynthia Dillard 10/06/98 03:45:33
PM

Record Type: Record

To: Cynthia A. Rice/OPD/EOP, Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP

cc:

Subject: Tobacco MMWR

In case you haven't heard, the MMWR for this week updates our figure for how many kids begin smoking every day. It is up to 3300 (from 3000). The report is embargoed until Thursday afternoon (appearing in Friday's papers). O'Hara will send us paper as soon as he gets it.

Tobacco Q&A
October 9, 1998

Q. How do you respond to the new youth smoking statistics in today's papers?

A. The figures released yesterday by the Centers for Disease Control show that between 1988 and 1996, the number of children who become regular smokers increased by 73 percent, and this increase resulted in 1.5 million more children becoming regular smokers over the eight year period. In 1996 alone, more than 1.2 million children under 18 became regular smokers, up from 708,000 in 1988. These startling new statistics provide just one more reason why Congress must pass comprehensive tobacco legislation which includes a significant price increase, restrictions on advertising and marketing to children, and other public health programs designed to stop kids from smoking before they start and help those who want to quit.

Tob - ser - Treasury youth
smoking report

Cynthia Dailard 10/08/98 03:22:46 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP
cc: Sarah A. Bianchi/OPD/EOP, Cynthia A. Rice/OPD/EOP
Subject: REVISED -- today's MMWR on youth smoking

CDC discovered an error in their math -- here is the revised version:

Today's MMWR (embargoed until 5pm today) finds that more than 3000 children begin smoking regularly everyday. While the actual number is estimated to be 3359, the confidence interval is such that CDC is saying "more than" 3000 (compared to the "nearly" 3000 that they used to say). This translates to 1.2 million kids each year becoming daily smokers. What is perhaps more newsworthy is their finding that between 1988 and 1996, the number of children who became daily smokers increased by 73 percent -- if the rate of smoking had remained constant during this time, then 1.5 million fewer children would have become regular smokers by 1996.

----- Forwarded by Cynthia Dailard/OPD/EOP on 10/08/98 03:22 PM -----

Cynthia Dailard 10/08/98 11:21:12 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP
cc: Sarah A. Bianchi/OPD/EOP, Cynthia A. Rice/OPD/EOP
Subject: today's MMWR on youth smoking

Today's MMWR (embargoed until 5pm today) finds that more than 3000 children begin smoking regularly everyday. While the actual number is estimated to be 3359, the confidence interval is such that CDC is saying "more than" 3000 (compared to the "nearly" 3000 that they used to say). This translates to 1.2 million kids each year becoming daily smokers. What is perhaps more newsworthy is their finding that between 1988 and 1996, the number of children who became daily smokers increased by 42 percent -- if the rate of smoking had remained constant during this time, then 1.5 million fewer children would have become regular smokers by 1996.

We are doing a weekly item on this.

Teen Smoking Fact Sheet

Teen Smoking is a Major Problem in this Country

- 4.5 million children ages 12-17 are current smokers.¹
- Every day, 3000 young people become regular smokers in this country, and 1000 will die prematurely from smoking-related diseases as a result.²
- Almost 90 percent of adult smokers began at or before age 18.³

Tobacco Use by Teens is On the Rise

- Smoking among high-school seniors is at a 19-year high -- 36.9 percent. Since 1991, past-month smoking has increased by 35 percent among eighth graders and 43 percent among tenth graders.⁴
- Cigarettes: Cigarette smoking rates among high school students rose by nearly a third between 1991 and 1997, from 27.5 percent to 36.4 percent.
 - ▶ Cigarette smoking was highest among white students (39.7 percent), rising by 28 percent from 1991 (30.9 percent).
 - ▶ While the level of cigarette smoking among African-American students was lower than for white students, the rate increased by 80 percent between 1991 and 1997 for African-American students (from 12.6 percent to 22.7 percent).
 - ▶ Smoking among Hispanic students rose 34 percent, from 25.3 percent in 1991 to 39.7 percent in 1997.⁵
- Cigars: One in five high school students (22 percent) smoked cigars within the past month. 31.2 percent of male high school students smoked cigars within the past month, compared with 10.8 percent of female students.⁶

¹ "National Household Survey on Drug Abuse: Population Estimates 1997", Substance Abuse and Mental Health Services Administration, U.S. Department of Health and Human Services.

² John Pierce, et al., "Trends in Cigarette Smoking in the United States, Projections to the Year 2000", *Journal of the American Medical Association*, vol. 261, pp. 61-65, 1989.

³ "Preventing Tobacco Use Among Young People--A Report of the Surgeon General, 1994", Centers for Disease Control and Prevention.

⁴ Monitoring the Future Study, University of Michigan, 1997.

⁵ "Tobacco Use Among High School Students -- United States, 1997", *Morbidity and Mortality Weekly Report*, vol. 47, no. 12, Centers for Disease Control and Prevention, April 3, 1998.

⁶ "Tobacco Use Among High School Students -- United States, 1997".

- Smokeless Tobacco: Almost one in ten (9.3 percent) of high school students used smokeless tobacco within the past month. White male students were significantly more likely to use smokeless tobacco products than any other group of high school students (20.6 percent).⁷
- Tobacco Products: Overall, 42.7% of high school students used tobacco products in the previous month (cigarettes, cigars, or smokeless tobacco) -- this represents nearly half of male high school students (48.2 percent) and more than a third of female students (36 percent).⁸

Many Teens are Addicted to Tobacco⁹

- Teenagers find it difficult to quit smoking -- 86 percent of teens who smoke daily and try to quit are unsuccessful.
- Teenagers underestimate the addictiveness of nicotine -- 75 percent of daily smokers who expect to quit are still smoking five years later.
- Casual smokers become hooked -- 42 percent of young people who smoke as few as three cigarettes per month go on to become regular smokers.

Teen Smoking is Associated with Other High-Risk Behaviors

- Adolescents (ages 12-17) who are current smokers are 12 times as likely to use illicit drugs and 23 times as likely to drink heavily as non-smoking youths.¹⁰ Seventy-four percent of youths who had smoked marijuana in their lifetime tried cigarettes first.¹¹
- Smoking is associated with a host of other risk behaviors, such as fighting and engaging in unprotected sex.¹²

August 21, 1998

⁷ "Tobacco Use Among High School Students -- United States, 1997".

⁸ "Tobacco Use Among High School Students -- United States, 1997".

⁹ "Selected Cigarette Smoking Initiation and Quitting Behaviors Among High School Students -- United States, 1997", *Morbidity and Mortality Weekly Report*, vol. 47, no. 19, Centers for Disease Control and Prevention, May 22, 1998.

¹⁰ "National Household Survey on Drug Abuse: Population Estimates 1997", Substance Abuse and Mental Health Services Administration, U.S. Department of Health and Human Services.

¹¹ "National Household Survey on Drug Abuse: Population Estimates 1995", Substance Abuse and Mental Health Services Administration, U.S. Department of Health and Human Services.

¹² "Preventing Tobacco Use Among Young People--A Report of the Surgeon General, 1994", Centers for Disease Control and Prevention.

A Comprehensive Approach to Reducing Youth Smoking

Department of the Treasury Analysis

Over 3 million teenagers smoke cigarettes on a daily basis in the United States. An additional 2 million smoke on a less than daily basis, but are at risk of becoming chronic daily users.

- The most recent data show that 25 percent of high school seniors were daily smokers; another 12 percent smoked on a less than daily basis. In addition, underage youth smoking has been on an upward trend — smoking rates among high school students rose by nearly a third between 1991 and 1997, from 27.5 percent to 36.4 percent.

Reducing youth smoking is the best way to reduce the overall incidence of smoking in the future; 90 percent of adult daily smokers first begin smoking cigarettes as teenagers.

The most reliable method for reducing teen smoking is to increase the price of cigarettes.

- Recently released tobacco company documents demonstrate that the tobacco industry has known for years that youths are very responsive to price. A 1981 Philip Morris memo analyzed the research and concluded “it is clear that price has a pronounced effect on the smoking prevalence of teenagers.”
- A large number of rigorous economic studies have shown that teen smoking is responsive to changes in the price of cigarettes. A consensus view is that the number of teen smokers declines by about 7 percent for a 10 percent increase in the real price of cigarettes.¹
 - This relationship represents the response for a very small change in prices. Our model allows the responsiveness to decline as prices rise, since the smokers that remain at high prices have revealed that they are less responsive to price signals.

Additional efforts beyond price changes can help to reduce youth smoking — such as eliminating vending machines, enforcing restrictions on sales to youths, eliminating advertising aimed at youths, and anti-smoking counter-advertising.

- Studies have shown that fully-enforced sales restrictions have successfully led to reductions in youth smoking, particularly for younger teens.
 - A 1991 study in the *Journal of the American Medical Association* reported a 69 percent decline in daily use by seventh and eighth graders in Woodridge, Illinois following legislation and enforcement of restrictions on cigarette sales to minors.²

¹Chaloupka, F., and M. Grossman, “Price, Tobacco Control Policies, and Youth Smoking,” NBER Working Paper #5740, 1996.

²Jason, L. A., P. Ji, M. Anes, S. Birkhead, “Active Enforcement of Cigarette Control Laws in the Prevention of Cigarette Sales to Minors,” *Journal of the American Medical Association*, Vol. 266, no. 22, December 11, 1991, pp. 3159-3161.

- A 1992 study in *Tobacco Control* reported a 44 percent decline in junior high school students' smoking in Leominster, Massachusetts as a result of strictly enforced sales restrictions.³
- A recent working paper comparing the effectiveness of state and local access restrictions estimates that comprehensive access restrictions for youth can lower youth smoking by 18%.⁴
- A number of experts in this area suggest that a conservative assumption for the impact of comprehensive sales and marketing restrictions is a 10-20% reduction in youth smoking. Based on their opinion and the existing literature, we use 15% in our estimates.

Hence, a coordinated effort of sizeable price increases and fully-enforced access and advertising restrictions would be more likely to produce a significant and sustained decline in youth smoking than either policy by itself.

- The Administration's Budget proposal calls for a significant increase in the real price of cigarettes over the next five years. Coupled with comprehensive sales and advertising restrictions, that price increase will lead to about a 42 percent reduction in underage teen smoking in five years.
- In 2003 alone, the number of young people kept from smoking would be about 1.6 million teens.
- Over the next five years, the total number of young people kept from smoking would be about 3 million teens.
- The direct result of these policies over the next five years is that about 1 million of today's young people will be spared from premature deaths resulting from smoking-related diseases.

These estimates illustrate the powerful impact of a combination of price increases and access/marketing restrictions on youth smoking. But there remains some uncertainty in our estimates of the impact of these policies.

- That is why the President has also called for youth smoking penalties on the tobacco industry if they do not meet targeted reductions in youth smoking. These penalties will help to ensure that we meet our youth targets.

These estimates are based on daily smoking. Because underage teen smoking on less than a daily basis frequently leads to daily smoking and the subsequent risk of death and disease, the figures understate the total benefits of these policies.

³DiFranza, J.R., R.R. Carlson, R.E. Caisse, "Reducing Youth Access to Tobacco," *Tobacco Control*, 1992.

⁴Chalupka, F., and R.L. Pacula, "Limiting Youth Access to Tobacco: The Early Impact of the Synar Amendment on Youth Smoking," Working Paper, University of Illinois-Chicago, January, 1998.

Background on Youth Smoking Elasticity Estimates

The Treasury Model

- The Treasury model of youth smoking starts from a participation elasticity of -0.7 at the current price level of about \$1.95 — which means that a 10% increase in price above its current level would reduce the number of teen smokers by 7%.
- But this relationship only holds for very small price changes. For larger and larger price increases, the Treasury model predicts somewhat smaller proportional reductions in teen smoking. This reflects the fact that the teens most likely to respond to price signals are also the first to be discouraged from smoking by a price increase.
- Using this model, a \$1.10 increase in the real price of cigarettes is projected to reduce youth smoking by 32%. Since a \$1.10 increase in the real price in 2003 represents a 53% rise, the associated “average” elasticity is actually -0.6.⁵

Industry Views Validate Administration Analysis

- Recently released internal documents from Philip Morris demonstrate that the tobacco industry has known for years that youths are very responsive to price.
- A memo from 1981 documents that the tobacco industry understands the compelling evidence that youths are very price responsive. This document is a review of the 1981 working paper by Lewit, Coate, and Grossman, discussed below. This industry review is very favorable, and does not question this substantial estimate of youth price responsiveness. As the memo states, “The authors of this paper ... have constructed an elegant longitudinal and cross-sectional model of teenage smoking behavior... The most important finding, and the one of greatest significance to the company, is their calculation of the price elasticity of cigarettes among teenagers.”
- This memo goes on to state “... it is clear that price has a pronounced effect on the smoking prevalence of teenagers, and that the goals of reducing teenage smoking and balancing the budget would both be served by increasing the Federal excise tax on cigarettes.”

⁵The semi-logarithmic demand function underlying this analysis is based on a standard model used to predict overall cigarette demand. Under it, every dime (\$0.10) increase in price reduces demand by the same *percent*, but since it is doing so from a smaller and smaller base at each step, the *absolute* reduction in teen smoking from each 10 cent increment declines slightly.

- Internal industry analyses also validate the relevance of the Canadian example discussed below. Another Philip Morris strategic planning document from the early 1990s states: “There is no question that increasing taxes will cause a decrease in smoking. This point is best illustrated by the present situation in Canada.”
- In another document dated September 3, 1987, a Philip Morris analysis of price increases concluded: “price increases . . . prevented 600,000 teenagers from starting to smoke . . . We don’t need to have that happen again.”

Previous Academic Studies

- A number of studies have attempted to estimate the responsiveness of youth smoking in the U.S. to price changes — the participation elasticity, or the change in the number of teen smokers due to price changes. This literature is based on comparisons of youth smoking rates in high and low tax states, and on changes in youth smoking within states as tax rates change.
- The CBO recently summarized this literature by stating that most of the evidence points to participation elasticities ranging from -0.50 to -0.75. *The Treasury estimate is in the range used by the CBO.*
- The results from this literature are shown in the Table below. Because differences in elasticity estimates may be less intuitive, the table shows — for each analysis of youth smoking — the projected reduction in teen smokers from a \$1.10 price increase (along with the Treasury estimates). This approach recognizes the fact that the Treasury model allows the elasticity to decline for larger price increases.

Study of Teen Smoking	Percent Reduction in Teen Smoking from \$1.10 Real Price Increase
Lewit, Coate, and Grossman (1981)	65%
DeCicca et al. (1998)	46%
Grossman et al. (1983)	41%
Chaloupka and Grossman (1996)	36%
CBO (midpoint)	34%
Treasury	32%
Evans and Huang (1997)	28%
Wasserman et al. (1991)	0-9%

- It is clear that the Treasury estimate is within the range of professional consensus on this question. Indeed, our estimates are more conservative than what most of the recent work in this area would suggest.
- One study which estimates a very different response from the remainder of the literature (Wasserman et al.) focuses exclusively on the late 1970s. During this period some surveys indicate that youth smoking fell precipitously without a price increase. We believe a more appropriate interpretation of the data during the late 1970's is that youth smoking was driven down by the broader dissemination of facts about smoking's dangers. According to one major survey, only half of 12th graders saw a great risk in smoking a pack or more of cigarettes a day in 1975 — the lowest level in the survey — but this number increased by nearly 25% between 1975 and 1980. Thus, rather than indicating that price does not affect youth smoking, we believe this data shows that other things can influence teens *in addition to price*.
- This same problem has led to a misinterpretation by some of the Evans and Huang paper. As Professor William Evans of Maryland pointed out in a recent letter to the Commerce Committee, the findings of his paper have been misquoted. *As noted in the Table above, the estimate that Evans stands behind is very close to the Administration estimate.* The confusion over his findings arises from the fact that his estimates which include data from the late 1970s show a smaller youth elasticity than his estimates which focus on the 1980s and 1990s. As Prof. Evans has noted, however, the data are less reliable for this earlier period; in addition, as noted above, this was an era when non-price factors were driving teen smoking down in the face of constant prices.

The Cornell Study

- Some have cited the recent study by DeCicca et al. as refuting the previous literature. In fact, this study finds higher estimates than the remainder of the literature when standard estimation techniques are used on their full sample of 8th-12th graders.⁶
- The study does find smaller effects when they choose the particular sample of 12th graders who weren't smoking in 8th grade, and try to model whether they start smoking. But there is no obvious explanation for this anomalous result; after all, removing from their model a population that is more addicted to cigarettes — individuals smoking from 8th to 12th grade — should *raise*, not *lower*, the elasticity estimate. It is troubling that dropping only 5% of their sample — the 5% of teens that are most addicted — reduces their estimate so dramatically.

⁶The estimate cited in our Table is an average of their elasticities for 8th, 10th, and 12th graders.

- The explanation for this anomalous finding is fundamental problems with their empirical methodology. A recent re-analysis of their data by Professors Thomas Dee of Georgia Tech and William Evans of Maryland has found these results to be very sensitive to the particular sample restrictions imposed by the Cornell authors. As these experts note, “The results appear to be purely an artifact of the way that the authors constructed the analysis sample.” When a broader sample of observations is used, there is a very significant effect of taxes on youth smoking in their onset model -- indeed, the results are quite comparable to the previous literature.
- This partly explains why the results of the Cornell study are so statistically imprecise. For example, in this particular model, they estimate that a \$1.10 price rise would reduce smoking onset by only 7%. However, given the level of statistical imprecision in their model, their findings would be equally consistent with a reduction in youth onset of 50% or more from this \$1.10 price increase — a range which encompasses the Treasury estimate, as well as their own estimates using a more straightforward methodology.
- One criticism levied by DeCicca et al. against the earlier literature is that it does not control for differences across states at a point in time that might determine youth smoking propensities; low tax states may have high smoking because of other regulatory or cultural factors. But their approach does not solve this problem; it still relies on point-in-time comparisons of smoking onset across states, making it difficult to separate out other differences across those states. Other studies address this problem much more directly. Chaloupka and Grossman (1996) do so by including a variety of state characteristics, including state anti-tobacco regulations. Evans and Huang (1997) address the problem even more directly by examining only the effect of within-state price changes on youth smoking. The fact that these estimates are so similar to that used by Treasury highlights the robustness of the conclusions, and indicates why the previous scientific consensus is not undermined by one set of anomalous results.

International Evidence

- There has also been much recent attention paid to the fact that youth smoking remains high in other countries with much higher cigarette prices. In particular, Wall Street analyst Martin Feldman noted in his testimony of March 19th that youth smoking rose in the U.K. between 1988 and 1996, despite a 26% rise in the real price of cigarettes. The inference that is often drawn from this type of evidence is that higher prices won't deter youth smoking in the U.S.
- But *these international comparisons do not tell us much of anything about the response of youth in the U.S. to price changes.* The fact that youth smoking rates remain high in other countries reflects other cultural factors that influence youth to smoke, and is not a rejection of the fundamental relationship between price and demand. And increased smoking among youth in the U.K. between 1988 and 1996 may have more to do with other factors, such as a recession which raised youth unemployment rates by 25% over this period, than with changes in the price of cigarettes. In light of this concern, it is

certainly preferable to rely on careful, controlled analysis of U.S. teen smoking than on this type of anecdotal international evidence.

- Nevertheless, if one is going to make international comparisons, then the most appropriate one would be to Canada, since it is more similar to and faces many of the same cultural influences as the U.S. The two economic studies which estimate the effects of cigarette prices on Canadian teens are both consistent with the findings in the U.S. literature — teens are not only responsive to price changes, but they are more responsive than adults. In fact, the Canadian youth elasticity estimates are higher than those for the U.S.
- Moreover, the pattern of youth smoking in Canada during the 1980s confirms the sensitivity of youth to price changes.
- In 1981, youth smoking was pervasive in Canada -- 43.5% of Canadian teen were current smokers (defined as having smoked in the last thirty days). The youth smoking rate during this period was about 50% higher than in the U.S.
- Over the next decade, Canada significantly increased the price of cigarettes. From 1981 to 1989, the price increased by about 90%. It is worth noting that these price increases occurred without significant smuggling; the widely cited smuggling episode from Canada did not occur until 1992-1993, when cigarette prices had risen by more than \$1.50 above their 1989 level.
- These price increases were associated with enormous declines in teen smoking. From 1981 to 1989, current Canadian teen smoking rates fell from 43.5% to 22.6%, a decline of almost fifty percent. During this period there were no substantial change in teen smoking rates in the U.S., so by 1991 Canada's teen smoking rate was lower than ours.
- The implied Canadian elasticity of -0.52 is very close to the estimate that would be computed by the Treasury model (which allows the price responsiveness to fall as the magnitude of the price increase grows) for this large a price rise, which is an elasticity of -0.51. The large declines in Canadian youth smoking rates represent largely the impacts of price increases, as opposed to other public policies designed to curb teen smoking. From 1981 to 1989, Canada did not impose any significant public health policy changes designed to reduce teen smoking.
- In the early 1990s, smuggling did become a problem in Canada, and the government lowered dramatically its federal excise taxes. As a result, between 1991 and 1994 teen smoking began to rise again in Canada. Of course, teen smoking was on the rise in the U.S. over this period as well, so it is not as easy to attribute all of the rise in Canada over this time period to price impacts. But the fact remains that *for the country most comparable to the U.S., teen smoking rates fell as prices rose, and rose as prices fell.*

Tob - ser - treasury youth smoking
report



Cynthia A. Rice

07/28/98 03:11:13 PM

Record Type: Record

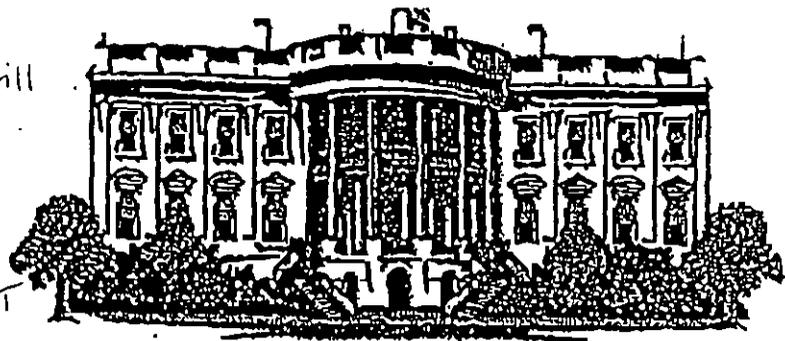
To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP
cc: Cynthia Dailard/OPD/EOP, Sarah A. Bianchi/OPD/EOP
Subject: Correction: the MMWR data on price is coming out on Thursday not Wednesday

We're working with CDC and Treasury to get answers to your questions. The bottom line is that this study is in the range of those Treasury examined to develop its original estimate.

Tobacco - new legis -
1 Repub thru bill

and

Tobacco - Treasury
youth smoking
report



THE WHITE HOUSE

Domestic Policy Council

DATE: 7/24

FACSIMILE FOR: Bruce / Elena

FAX: 62878
PHONE:

FACSIMILE FROM: Cynthia Rice, Special Assistant to the President for Domestic Policy

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NUMBER OF PAGES (INCLUDING COVER): 3

COMMENTS: FYI - Treasury Table showing assumptions re: non-price effects. They assumed a 15% reduction in teen smoking in McCain for non-price effects. Using the same methodology for expected House GOP, they would score $\leq 4\%$. HHS, Treasury agree

EFFECTS OF NON-PRICE INITIATIVES ON TEEN SMOKING

DRAFT

Type of Initiative	Teen Smoking Effect
1. Restrictions on Tobacco Sales, Possession, and Use Vendor Licensing Vending Machine Restrictions ID Checks Ban on Point-of-Purchase Enticements	Depends on enforcement mechanism: can lead to reductions, but only if coupled with strong enforcement mechanisms and other publicity-related initiatives. Use already illegal in all states, and licensing is common.
2. Enforcement of Restrictions <i>Methods for Detecting Compliance</i> Limited: Voluntary or preannounced checks Widely available licenses Unfunded initiatives Strong: Random checks and stings Systematic program Strict licensing requirements	Limited initiatives: 0% Collective effect of strong initiatives in all of these areas: 8-10%
<i>Penalties for Sellers</i> Limited: Warnings, small fixed fines Strong: Suspension or loss of license, large and escalating fines	
<i>Penalties for Teens</i> Limited: Warnings, small fines or community service requirements, parental notification. Strong: Long-term suspension of driver's licenses, large fines and/or service requirements. Local restrictions must include penalties for possession or use, not just sales.	
<i>Incentives for State Enforcement</i> Limited: Federal legislation Strong: Federal financial support, incentives or penalties for local achievement of reduction targets.	

3. Advertising	
<p><i>Restrictions on Tobacco Advertising and Promotions</i> Limited: Federal authority to regulate/monitor. Strong: Prohibitions on giveaways and other promotional products, brand-name sponsorship of events, ad content that may reach or appeal to minors, regulation of advertising in all media.</p>	<p>Limited initiatives: 0% Strong initiatives including anti-smoking campaign: 2-8% reduction</p>
<p><i>Anti-Smoking Advertising</i> Limited: Little or uncertain funding, poor quality. Strong: Substantial funding, professional quality, reliable source.</p>	
4. Other Initiatives	<p>Little generalizable evidence available. Depends on specific features of the initiative, such as funding level and extent to which initiatives follow strategies shown to be effective.</p>
<i>School-based Prevention Programs</i>	
<i>Teen Cessation Programs</i>	
<i>Stronger Warning Labels</i>	
<i>Other Measures</i>	
5. Synergies	<p>Comprehensive package of strong initiatives will be more effective than isolated steps.</p>

NOTE:

Conservative estimates of effects are reported. Some studies found substantially larger effects of particular strong initiatives, suggesting that special circumstances such as synergies or particular implementation features may have important consequences for smoking reduction effects.

Tob - sec - Treasury youth
smoking report

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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EMBARGOED UNTIL 2:30 P.M. EST
Text as Prepared for Delivery
March 24, 1998

TREASURY DEPUTY SECRETARY LAWRENCE H. SUMMERS
SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION

Mr Chairman, thank you for giving me this opportunity to discuss economic and financial aspects of tobacco legislation proposals presently before Congress. As you know, President Clinton strongly supports the efforts of yourselves and others in Congress to forge comprehensive legislation, consistent with the principles he outlined last fall, to protect America's children from the deadly threat of smoking.

At Treasury and throughout the Administration we have been and will remain one hundred percent committed to working with this Committee and others in Congress to address an issue of such enormous consequence for the health of the American people and our economy.

I would like to focus my remarks today on the proposals in the President's budget and their implications for public health, something that will depend critically on the increase in cigarette prices. I will also address the concern that comprehensive tobacco legislation in line with the President's core principles would impose unmanageable adjustment costs on tobacco suppliers and the tobacco industry as a whole.

First, however, let me say a few words about the background for this discussion: the enormous burden that smoking imposes on our nation and our economy; the need to cut teen smoking to start reducing that burden; and the President's call for comprehensive legislation to achieve that goal.

I. Combating Smoking: the Need for a Comprehensive Approach

1. The Human and Economic Costs of Smoking

Smoking is by far the largest preventable cause of premature death in the U.S. As Dr. David Satcher noted in his testimony last week, over 400,000 Americans die each year of

RR-2318

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tobacco-related diseases. This toll exceeds the deaths from AIDS, homicide, suicide, alcohol use, illegal drug use, fires and auto accidents combined. Recent estimates suggest that on present patterns of tobacco-use, an estimated 25 million of today's Americans will die prematurely from a smoking-related disease.

Behind these heavy human costs of smoking lie equally heavy economic costs for our nation:

- we spend about \$60 billion each year treating smoking related illnesses. On its own, smoking during pregnancy -- which results in 2500 fetal deaths and doubles the odds of being born with low birth weight and potentially suffering problems later in life as a result -- costs the country some \$3-4 billion every year;
- fires caused by smokers cost another \$500 million -- and 2000 lives -- per year;
- smokers with group life insurance push up the premiums of the non-smokers in their insurance pool by about \$4 billion dollars per year;

We must also consider the enormous cost to our economy from all the premature retirements and premature deaths of productive workers that are caused by smoking -- amounting to \$60 billion or more in lost wages.

2. The Importance of Reducing Teen Smoking

There is a strong consensus on the need to reduce smoking in this country and the heavy costs that smoking brings with it. And there is an equally strong consensus on the most effective way to achieve that goal. It is to stop smoking when it starts -- in adolescence. Nine out of ten smokers start when they are in their teens. And the record shows that once they start smoking, they are unlikely to stop.

Each day, 3000 young people become regular smokers. Fully one third of them will have their lives cut short by it, because it causes an addiction that is very hard to shake later on. Nearly half of teen daily smokers think they will not be smoking five years later. Yet only one fifth actually manage to quit. One half of teen smokers try to quit and fail; and by age 18, two-thirds have already regretted starting. The regret is understandable: nearly half of adult smokers try to quit every year, but only about 2.5 percent succeed.

3. The Need For a Comprehensive Approach

The Administration's efforts are guided by another lesson of experience: that preventing youth smoking demands a comprehensive attack on the problem, an approach that makes tobacco companies part of the solution. The fact is that the piecemeal approaches of past years have not worked. Youth smoking has continued to grow through the 1990s and shows no sign of declining.

What is required is a coordinated, comprehensive approach based around the five core components that the President outlined last fall:

- a combination of annual payments and penalties designed to achieve targeted reductions in teen smoking by raising the price of a pack of cigarettes by up to \$1.50.
- full authority for the Food and Drug Administration to regulate tobacco products;
- real changes in the way the tobacco industry does business, including an end to marketing and promotion to children.
- progress toward other public health goals, including biomedical and cancer research, a reduction of second-hand smoke, promotion of smoking cessation programs, and other urgent priorities
- protection for tobacco farmers and their communities

We believe that all five of these components are critical to a solution and are mutually reinforcing: the effectiveness of any one is substantially increased by the presence of the others. For example, studies in Massachusetts and California suggest that while increasing the price of cigarettes is one of the most cost-effective short-term strategies for reducing tobacco consumption, the ability to sustain that reduction is significantly increased when the price increase comes with a comprehensive anti-smoking campaign along the lines outlined above. And the more we are able to coordinate our efforts across state and county lines, the more effective such an approach will be.

II. The Economic Implications of a Comprehensive Approach

It is in the nature of this comprehensive approach to combat youth smoking that it will involve many parts of our government working together. Thus, several of the components I have described will properly be matters for other departments to address. In my remarks I shall focus mainly on two interrelated aspects of the Administration's approach that are of particular relevance to Treasury: the implications for the pricing of cigarettes and the prevalence of youth smoking. I also will say a few words about the implications for tobacco farmers and manufacturers.

1. The Implications for Cigarette Prices and Youth Smoking

Implications for Prices

A large body of evidence suggests that the most effective way to reduce smoking by young people is to raise the price of cigarettes. Thus, to measure the impact of any tobacco legislation on youth smoking we need to measure the impact on the price of cigarettes to consumers.

The President's budget calls for assessments which would result in cigarette price increases. As Table 1 shows, the budget plan's impact on prices would rise from 62 cents in 1999 to \$1.10 in 2003 in constant dollars. Let me be clear: this figure represents the increases that would be directly attributable to the passage of comprehensive legislation. It does not represent the anticipated increase in the base price of cigarettes during a period in which a number of relevant features of the surrounding environment will be changing. For example, there is the increase in federal excise taxes scheduled to take place over the next five years.

As Table 1 further indicates, we anticipate that without any legislation the baseline price will rise from \$1.94 today to \$2.09 in 2003 in real terms. Combining this rise in the baseline price with the \$1.10 increase resulting from the President's budget, the total price of a pack of cigarettes in 2003, in constant dollars, is projected to be \$3.19.

Mr. Chairman, although such price levels are common in many other countries, they are higher than those we have experienced in the United States. We have been and will continue to be mindful of the many uncertainties about how an increase of this kind will ultimately translate into retail prices. Because our primary goal in this endeavor is to advance public health through the reduction of teen smoking, we have been conservative in many of our calculations in order not to risk falling short of our goals.

Specifically:

- we have assumed that wholesalers and retailers will not add their existing mark-ups to the settlement costs passed on by manufacturers. In fact, virtually all of the relevant empirical evidence¹ suggests that there will be very little "pyramiding" of this kind. That is why the FTC, in their analysis of the original Attorneys General settlement, assume in their baseline that there would not be this kind of mark-up of the payments made by manufacturers in the prices paid by consumers.
- we assume the major increase in pricing nationwide would come as a consequence of federal action in the context of comprehensive legislation, and not as a result of significant tax increases on the part of the states.
- finally, we have not included in our forecasts the additional impact of state sales taxes on the final price of cigarettes, on the grounds that these are not part of the posted price of cigarettes at the point of sale.

It may be that, as several commentators have suggested, these assumptions -- along with

¹For example, Barnett, Keeler, and Hu's 1995 study estimated a pass-through rate from federal taxes to retail prices of about 102 percent over the 1955 to 1990 period. Sumner's 1981 study over state tax increases the 1954-1978 period found a pass-through rate of 103 to 107 percent, and Merriman's 1994 study estimated a rate of 106 percent.

our assumptions on other matters such as black and gray market activity, which I will discuss below -- are too conservative.² I might also note, in this context, that we have assumed that the vast majority of the legislation's cost will be passed on to United States consumers of domestic cigarettes rather than to the shareholders in tobacco companies or consumers of other goods produced by these companies. Clearly the uncertainties involved leave room for reasonable people to disagree.

If our estimates turn out to have understated the eventual impact on prices -- which we do not expect -- the health benefits envisioned in the President's budget would be achieved that much more quickly. Our estimates show that for every 10 cents added to the price of cigarettes, approximately 700,000 fewer teenagers will begin smoking -- and more than 200,000 premature deaths will be avoided.

Overall Implications for Youth Smoking

As I noted earlier, the impact of any given price increase on youth smoking will be significantly increased by other elements of the comprehensive approach the President has called for -- notably, a crackdown on youth marketing and advertising by tobacco companies and more effective enforcement of legal restrictions on tobacco sales to young people.

Studies have found a 69 percent decline in daily use by seventh and eighth graders in Woodridge, Illinois following legislation and enforcement of restrictions on cigarette sales to minors, and a 44 percent decline in junior high school students' smoking in Leominster, Massachusetts as a result of strictly enforced sales restrictions. For our own estimates, we used a conservative assumption that experts have recommended -- that comprehensive sales and marketing restrictions will reduce youth smoking by about 15%.

The combination of the price increase anticipated above and the tighter restrictions on youth access and marketing leads to dramatic reductions in youth smoking. Table 2 presents these results, showing that the price increase reduces teenage smoking by 29%. Youth access and market restrictions reduce teenage smoking by an additional 11%. Furthermore, we estimate that our plan will:

- reduce the number of youths smoking each year by as many as 1.9 million by 2003;
- reduce the cumulative number of youths who smoke between now and 2003 by 3 million;

²For example, Martin Feldman of Salomon, Smith, Barney has estimated that the President's budget will result in a total price per pack which is 34 cents beyond our estimate of \$3.19. However, 30 cents of this extra rise can be explained by his assumption that wholesalers and retailers will add to their existing price mark-ups -- an assumption which runs against virtually all relevant empirical evidence. Another prominent industry analyst, Gary Black of Sanford Bernstein, in his analysis of the June 20 settlement, projects these mark-ups will actually fall.

- and avoid roughly 1 million premature deaths as a result.

These estimates suggest the value of such a comprehensive approach to combating teen smoking. But we cannot and will not let our success in this effort depend on the accuracy of today's best estimates. The many uncertainties involved in making these predictions only underline the importance of incorporating in any legislation the Administration's concrete targets for reducing youth smoking. These aim to cut youth smoking by 30% after 5 years, 50% after 7 years, and 60% after 10 years. And in the strong youth lookback penalties that the President has proposed we have additional insurance that these targets will be met.

We have had fruitful discussions with the staffs of a number of members of both the House and Senate about the appropriate structure of youth lookback penalties, and we recognize that there are several different ways of providing the necessary insurance. But we believe that any lookback penalty structure should not be tax deductible and should meet two principles:

- it must be levied on both the industry as a whole and on individual companies specifically. These two types of penalty structures serve two different purposes. The industry penalties, which are likely to be passed on to price, provide "price insurance", relying on the best tool we have (cigarette prices) to lower youth smoking if we miss our targets. The company specific penalties, on the other hand, provide "non-price insurance," holding specific companies accountable for their actions in selling tobacco products to youth and thereby providing a profit incentive to take other actions to reduce youth use of their products.
- the penalties must be sizeable in those cases where the industry or specific firms miss their targets by a substantial margin. This could be accomplished, for example, by having penalties that increase with the distance the company is from its target.

Let me add that as part of our economic analysis we have also considered issues relating to possible black and gray market activity following legislation. As Figure 1 shows, even in the context of legislation that produced a price increase significantly higher than that presently being considered, cigarette prices in the United States would still be significantly lower than has proved workable in other countries.

The fact that the price increase is primarily to be achieved through direct payments by the tobacco companies should significantly ease the task of enforcement relative to other cases in which the increase is achieved through higher excise taxes at the retail level. But as you know, we have been working with your staff and others on a proposed system of licensing and registration to control the diversion of tobacco and prevent any smuggling that may occur.

2. The Implications For the Tobacco Industry

Questions have arisen about the impact of legislation on tobacco manufacturers and their suppliers. We are confident that the changes in pricing and behavior that we are seeking can be achieved without putting producers' livelihoods or the health of the broader economy at risk.

Tobacco farmers

There are more than 124,000 American farmers engaged in the production of tobacco in this country. Largely concentrated in certain, heavily tobacco-dependent regions, they and their families have already been forced to undergo difficult adjustments as the overall demand for tobacco in this country has declined. We cannot and will not leave these highly vulnerable families and communities behind in crafting a comprehensive approach to reducing smoking much faster in the years to come.

That is why one of the President's principles is protection for tobacco farmers and their communities. And it is why we have supported, in this context, the efforts of the many Senators and House members who have been working to provide for this protection. One method of protecting these farmers is continuing production control programs, such as that included in the LEAF Act supported by Senators Ford, Hollings, and Frist. The Administration agrees that controls on production can be one element of a system that meets the President's five principles, and we look forward to being able to support the product of your work in this area.

As we go forward the President is committed to working with Congress to find the best way both to protect the health of our children and to protect the economic well-being of our farmers. So, too are the coalition for public health and tobacco farming organizations that last week endorsed a set of principles with which both groups could agree. These organizations include the Burley Tobacco Growers Cooperative, the Flue-Cured Tobacco Stabilization Corporation, the American Heart Association, the American Cancer Society, and the Campaign for Tobacco Free Kids. And let me add: we are determined that one important use of the funds raised by higher prices on cigarettes will be the provision of funds to protect the economic well-being of tobacco farmers and their communities.

Tobacco manufacturers

The best evidence suggests that comprehensive legislation consistent with the President's five principles would come at some detriment to the profitability of American tobacco companies. However, it is important to bear in mind that a central feature of both the settlement and all of the legislation that has been proposed to date is an expectation -- indeed, an express desire -- that companies will pass the costs on to the price of tobacco products.

To the extent that the costs are indeed passed on to prices, the impact on the profitability of these companies will be less than many have perhaps imagined and certainly insufficient to

create major disturbance to the economy. The FTC analysis of the June 20 Attorneys General settlement suggested that the total impact of the settlement would lead to, at most, a 15 percent reduction in tobacco industry profits. Applying similar methodologies to the President's budget proposals -- and bearing in mind, once again, the very large uncertainties that exist -- suggests a reduction in operating profits of around 23 percent.

There is also the separate question of how the market would value any given stream of profits in the event that comprehensive legislation reduced some portion of the substantial legal uncertainties these companies presently face. It has been widely acknowledged by Wall Street analysts that the resolution of some of the uncertainties facing this industry will increase the market valuation of the future income streams of tobacco firms. This effect would tend to offset the reduction that I noted in the level of these future income streams.

III. Concluding Remarks

Members of the Committee, as the President has said: "we stand on the verge of one of the greatest public health achievements in history -- an historic triumph in our fight to protect America's children from the deadly threat of tobacco." The opportunity is there for the taking: in the comprehensive, five-part approach that the President has called for and so many in Congress are striving to achieve.

The stakes are high. Every day that we do not take action means that another 3,000 young people will become regular smokers. Just in the time that I have been speaking to you, 20 children have started smoking, and 7 of them will die prematurely as a result. We cannot afford to delay one child longer. If we pass comprehensive legislation that meets the targets laid out in our budget, in five years' time around 40 percent fewer American children will be smokers; in 10 years time, the number will have been halved. I look forward to working closely with you, Mr Chairman, with the members of this committee and with others in Congress as we work to take this historic step forward for the future of our nation and the future of our economy. I would now welcome any questions.

Table 1

Average Price Per Pack of Small Cigarettes
FY 1999 Budget Assumptions

Calendar Years	1998	1999	2000	2001	2002	2003
Nominal Prices						
Baseline Price Assumption 1/	1.94	1.99	2.14	2.18	2.29	2.34
FY99 Budget price increases	0.00	0.63	0.82	0.95	1.09	1.24
Total Price	1.94	2.62	2.96	3.13	3.38	3.58
Real Prices (1998 \$)						
Baseline Price Assumption	1.94	1.94	2.04	2.04	2.09	2.09
FY99 Budget price increases	0.00	0.62	0.78	0.89	1.00	1.10
Total Price	1.94	2.56	2.82	2.93	3.09	3.19

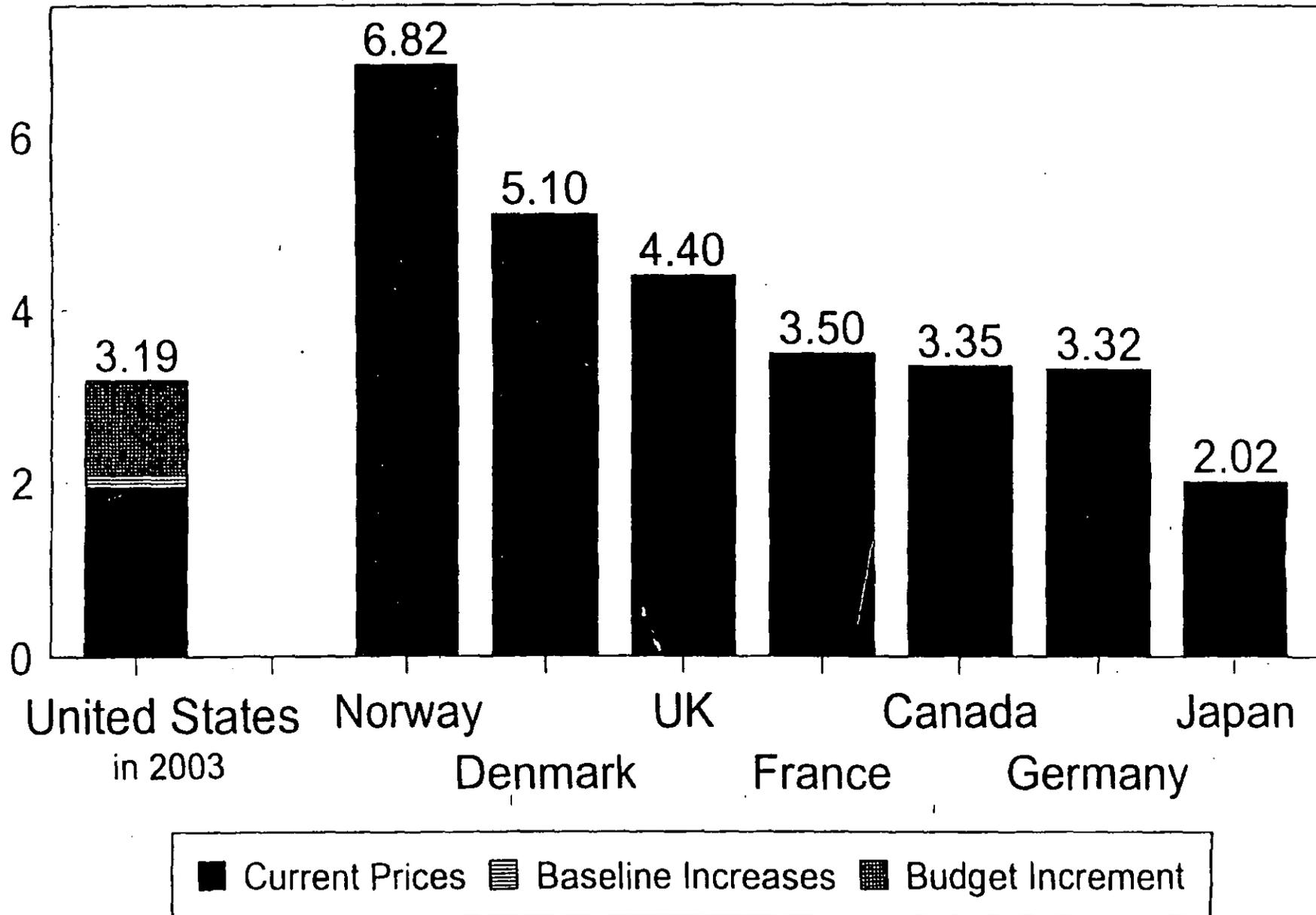
1/ Price assumed is weighted average of premium, generic, and discount cigarettes sold as singles, cartons and case.

TABLE 2: Health Benefits of President's Budget

Baseline Number of Teen Smokers Between 1999-2003	7.6 Million
Percent Reduction due to Price Increase	-29%
Percent Reduction due to Access and Marketing Restrictions	-11%
Cumulative Percent Reduction	-40%
Reduction in Number of Teen Smokers 1999-2003	-3.0 Million
Premature Deaths Avoided	-1.0 Million

National Estimates

Figure 1: Real International Cigarette Prices



Source: United Nations, Tobacco Merchants Association, CIA, World Fact Book, Smith Barney estimates from Smith Barney Tobacco Research, October 22, 1997.

United States figure includes current price, baseline increases, and budget increment in 2003. All others are 1996 equivalent US (\$) retail tobacco prices.

PUBLIC DISCLOSURE OF TOBACCO INDUSTRY DOCUMENTS

FINDINGS. — The American tobacco industry has made claims of attorney-client privilege, attorney work product, and trade secrets to protect from public disclosure thousands of internal documents sought by civil litigants. A number of courts have found that these claims of privilege were not made in good faith. To promote understanding by the public of the tobacco industry's research and practices, Congress finds that a prompt and full exposition of tobacco documents will further the purposes of this Act.

(a) APPLICABILITY. — This Title shall apply to all manufacturers of tobacco products as a necessary requirement of participation in the American tobacco market.

(b) NATIONAL TOBACCO DOCUMENT DEPOSITORY. — Manufacturers of tobacco products shall, within __ days after the enactment of this Act, establish a National Tobacco Document Depository (the Depository) in the Washington, D.C. area.

(1) DOCUMENT CATEGORIES. — Within __ days after the enactment of this Act, each manufacturer of a tobacco product shall submit to the Depository every existing document (including any document subject to a claim of attorney-client privilege, attorney work product, or trade secret protection) in the manufacturer's possession, custody, or control —

(A) relating, referring, or pertaining to —

(i) any health or pharmacological effects in humans or animals, including addiction, caused by the use of tobacco products or components of tobacco products;

(ii) the engineering, manipulation or control of nicotine in tobacco products;

(iii) the sale or marketing of tobacco products;

(iv) any research involving safer or less hazardous tobacco products;

(v) studies of smoking habits of minors;

(vi) the relationship between advertising or promotion and the use of tobacco products;

(B) produced, or ordered to be produced, by the tobacco product manufacturer in any health-related civil or criminal proceeding, judicial or administrative; or

(C) that the National Tobacco Documents Review Board, as described in.

subsection (c) below, determines is appropriate for submission to the Depository.

(2) DOCUMENT IDENTIFICATION AND INDEX. — Documents shall be sequentially numbered and marked to identify the tobacco manufacturer. Within __ days of submission of documents to the Depository, each tobacco manufacturer shall supply the Depository with a comprehensive document index which references the applicable document categories contained in section (b)(1)(A) of this subtitle.

(3) PRIVILEGE AND TRADE SECRET CLAIMS. — Any document that is subject to a claim by a tobacco manufacturer of attorney-client privilege, attorney work product, or trade secret protection shall be so marked and shall be submitted separately to the Depository. Compliance with this section shall not be deemed to be a waiver of any applicable claim of privilege or trade secret protection.

(A) PRIVILEGE AND TRADE SECRET LOGS.— Within __ days after the enactment of this Act, each manufacturer shall submit to the Depository a comprehensive log which identifies on a document-by-document basis all documents produced to the Depository for which the manufacturer asserts attorney-client privilege, attorney work-product, or trade secrecy. With respect to documents for which the manufacturer previously has asserted one or more of the aforementioned privileges or trade secret protection, the manufacturer shall conduct a good faith de novo review of such documents to determine whether such privilege or trade secret protection is appropriate. In making such a claim, the manufacturer shall adopt the standards set forth in subsection (c)(2) below.

(i) The log shall be organized in numerical order based upon the document identifier assigned to each document. For each document, the log shall contain: (a) a description of the document, including type of document, title of document, name and position or title of each author, addressee and other recipient (e.g., cc's), document date, document purpose and general subject matter; (b) an explanation why the document or a portion of the document is privileged or subject to trade secret protection; and (c) a statement whether any previous claim of privilege or trade secret was denied and, if so, in what proceeding. Within __ days of receipt of such a log, the Depository shall make it available for public inspection and review.

(ii) Each manufacturer shall submit a declaration, pursuant to 28 U.S.C. Section 1746, by an individual with responsibility for the de novo review of documents, preparation of the privilege log and knowledge of its contents. The declarant shall attest to the manufacturer's compliance with the requirements of this Title pertaining to the review of documents and preparation of a privilege log.

(4) DISCLOSURE BY THE DEPOSITORY. — Within __ days of receipt of a document

that is not subject to a claim of attorney-client privilege, attorney work product, or trade secret protection, the Depository shall make the document available to the public using the Internet and other means.

(c) NATIONAL TOBACCO DOCUMENTS REVIEW BOARD. — There shall be a National Tobacco Documents Review Board (the Board) consisting of ___ members each of whom shall be appointed by the President and confirmed by the Senate. Any person who is a citizen of the United States shall be eligible to serve as a member of the Board. Each Board member shall be appointed for a term of seven years and shall be eligible for reappointment. The Board shall have the power, not subject to judicial review, to hire such staff and establish such operating procedures as it deems necessary to carry out its functions as specified hereunder.

(1) RESPONSIBILITY FOR DEPOSITORY. — The Board shall have the responsibility of maintaining the Depository and shall, in consultation with the General Services Administration, establish guidelines and procedures for the establishment and operation of the Depository, including guidelines for the immediate disclosure of documents that are not subject to unresolved claims of privilege or trade secrecy. The Depository shall be open to the public and maintained in a manner that permits it to be used as a resource for litigants, public health groups, and persons with an interest in tobacco industry records and research concerning smoking and health, addiction or nicotine dependency, safer or less hazardous cigarettes, and underage tobacco use and marketing.

(2) RESOLUTION OF DISPUTED PRIVILEGE AND TRADE SECRET CLAIMS. — The Board shall determine whether to uphold or reject disputed claims of attorney client privilege, attorney work product, or trade secret protection with respect to documents submitted to the Depository. Any person may petition the Board to resolve a claim that a document submitted to the Depository may not be disclosed to the public. Such determination shall be made by a single member of the Board, in writing, and shall be subject to judicial review as specified in this Title. All such determinations shall be made solely on consideration of the subject document and written submissions from the person claiming that the document is privileged and/or protected by trade secrecy and from any person seeking disclosure of the document.

(A) PRIVILEGE.— The Board shall apply the attorney-client privilege and the attorney work-product doctrine in a manner consistent with federal law.

(B) TRADE SECRET.— The Board shall define "trade secret" as "any commercially valuable plan, formula, process or device that is used for making or preparing trade commodities and that can be said to be the end product of either innovation or substantial effort. There must be a direct relationship between the trade secret and the productive process."

(3) FINAL DECISION — The Board may uphold a claim of privilege or protection in its

entirety or, in its sole discretion, it may redact that portion of a document that it determines is protected from public disclosure under (C)(2) above. Any decision of the Board shall be final unless judicial review is sought as specified in subsection (c)(4) of this Title. In the event that judicial review is so sought, the Board's decision shall be stayed pending a final judicial decision.

(4) PETITION; RIGHT OF APPEAL. — Any person may obtain judicial review of a final decision of the Board by filing a petition for review with the United States Court of Appeals for the Federal Circuit within __ days after the entry of such decision. A copy of the petition shall be transmitted by the Clerk of the Court to the Board. The Board shall file in the court the record of the proceedings on which the Board based its decision (including any documents reviewed by the Board *in camera*) as provided in section 2112 of Title 28. Upon the filing of such petition, the court shall have exclusive jurisdiction to affirm or set aside the Board's decision, except that until the filing of the record the Board may modify or set aside its decision.

(A) ADDITIONAL EVIDENCE AND ARGUMENTS. — If the petitioner applies to the court for leave to adduce additional evidence or arguments respecting the decision being reviewed and shows to the satisfaction of the court that such additional evidence or arguments are material and that there were reasonable grounds for the failure to adduce such evidence or arguments in the proceedings before the Board, the court may order the Board to provide additional opportunity for the presentation of evidence or arguments in such manner and upon such terms as the court deems proper. The Board may modify its findings or make new findings by reason of the additional evidence or arguments and shall file with the court such modified or new findings, and its recommendation, if any, for the modification or setting aside of the decision being reviewed.

(B) STANDARD OF REVIEW; FINALITY OF JUDGMENTS. — The Board's findings of fact, if supported by substantial evidence on the record taken as a whole, shall be conclusive. The court shall review the Board's legal conclusions *de novo*. The judgment of the court affirming or setting aside the Board's decision shall be final, subject to review by the Supreme Court of the United States upon certiorari or certification, as provided in section 1254 of Title 28.

(5) PUBLIC DISCLOSURE AFTER FINAL DECISION.— Within __ days of a final decision by the Board that a document, as redacted by the Board or in its entirety, is not protected from disclosure by a claim of attorney-client privilege, attorney work product, or trade secret protection, the Board shall direct the Depository to make the document available to the public. No Federal or State court shall have jurisdiction to review a claim of attorney-client privilege, attorney work product, or trade secret protection for a document that has lawfully been made available to the public pursuant to this paragraph.

(6) EFFECT OF NON-DISCLOSURE DECISION ON JUDICIAL PROCEEDINGS —
The Board's decision that a document is protected by attorney-client privilege, attorney work product, or trade secret protection is binding only for the purpose of protecting the document from disclosure by the Depository. The decision by the Board shall not be construed to resolve a claim that a document should not be disclosed in a judicial proceeding.

(d) SANCTIONS.—

(1) Each tobacco manufacturer must act in good faith and have a readily understood claim of privilege or trade secret protection based on fact and law as set out in subsection (c)(2) of this Title. If the Board determines that a tobacco manufacturer has not acted in good faith with full knowledge of the truth of the facts asserted and with a reasonable basis under existing law, the manufacturer shall be assessed costs, which shall include the full administrative costs of handling the claim of privilege, and all attorneys' fees incurred by the board and any party contesting the privilege. The Board may also impose civil penalties of up to \$ ___ per violation if it determines that the manufacturer knowingly acted with the intent to delay, frustrate, defraud, or obstruct the Board's determination of privilege, attorney work product, or trade secret protection claims.

(2) A failure by a tobacco manufacturer to produce indexes and documents in compliance with the schedule set forth in this Title shall be punished by a civil penalty of up to \$ _____ per violation. A separate violation occurs for each document the manufacturer has failed to produce in a timely manner. The maximum penalty under this subsection for a related series of violations is \$ _____. In determining the amount of any civil penalty, the Board shall consider the number of documents, length of delay, any history of prior violations, the ability to pay, and such other matters as justice requires. Nothing in this Title shall replace or supercede any criminal sanction under Title 18 or any other Title of the United States Code.

(e) DISCLOSURE TO THE FOOD AND DRUG ADMINISTRATION. — Within ___ days after enactment of this Act, each manufacturer of a tobacco product shall submit to FDA the documents identified in (b)(1), with the exception of any document for which privilege is claimed, and identified in accordance with (b)(2). Each manufacturer shall provide FDA with the privilege and trade secret logs identified in (b)(3). With respect to documents that are claimed to contain trade secret material, unless and until it is finally judicially determined pursuant to this Title, either through judicial review or because time for judicial review has expired, that such a document does not constitute or contain trade secret material, FDA shall treat the document as a trade secret in accordance with the Federal Food, Drug, and Cosmetic Act, section 321, et seq., of Title 21, and the regulations promulgated thereunder. Nothing herein shall limit the authority of FDA to obtain and use, in accordance with any provision of the Federal Food, Drug, and Cosmetic Act and the regulations promulgated thereunder, any document constituting or containing trade secret material. Documents and materials received by

FDA pursuant to this provision shall not be obtainable by or releasable to the public through section 552 of Title 5, or any other provision of law, and the only recourse to obtain these documents shall be through the Board and depository.

(f) OTHER.-- For the purposes of this Title,

(1) the term "DOCUMENT" shall include originals and drafts of any kind of written or graphic matter, regardless of the manner of production or reproduction, of any kind of description, whether sent or received or neither, and all copies thereof that are different in any way from the original (whether by interlineation, receipt stamp, notation, indication of copies sent or received or otherwise) regardless of whether "confidential", "privileged", or otherwise, including any paper, book, account, photograph, blueprint, drawing, agreement, contract, memorandum, advertising material, letter, telegram, object, report, record, transcript, study, note, notation, working paper, intra-office communication, intra-department communication, chart, minute, index sheet, routing sheet, computer software, computer data, delivery ticket, flow sheet, price list, quotation, bulletin, circular, manual, summary, recording of telephone or other conversation or of interviews, or of conferences, or any other written, recorded, transcribed, punched, taped, filmed, or graphic matter, regardless of the manner produced or reproduced. Such term shall also include any tape, recording, videotape, computerization, or other electronic recording, whether digital or analog or a combination of the two;

(2) the term "MANUFACTURER OF A TOBACCO PRODUCT" also includes subsidiaries, assigns, agents and related or affiliated entities that are primarily funded by persons who manufacture a tobacco product;

(3) any action undertaken pursuant to this Title, including but not limited to, the search, indexing, and production of documents, is deemed to be a "proceeding" before the executive branch of the United States.

(4) the disclosure process in this Title is not intended to affect the Federal Rules of Civil or Criminal Procedure or any federal law which requires the disclosure of documents or which deals with attorney-client privilege, attorney work product, or trade secret protection.

EMBARGOED UNTIL 2:30 P.M. EST
Text as Prepared for Delivery
March 24, 1998

TREASURY DEPUTY SECRETARY LAWRENCE H. SUMMERS
SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION

Mr Chairman, thank you for giving me this opportunity to discuss economic and financial aspects of tobacco legislation proposals presently before Congress. As you know, President Clinton strongly supports the efforts of yourselves and others in Congress to forge comprehensive legislation, consistent with the principles he outlined last fall, to protect America's children from the deadly threat of smoking.

At Treasury and throughout the Administration we have been and will remain one hundred percent committed to working with this Committee and others in Congress to address an issue of such enormous consequence for the health of the American people and our economy.

I would like to focus my remarks today on the proposals in the President's budget and their implications for public health, something that will depend critically on the increase in cigarette prices. I will also address the concern that comprehensive tobacco legislation in line with the President's core principles would impose unmanageable adjustment costs on tobacco suppliers and the tobacco industry as a whole.

First, however, let me say a few words about the background for this discussion: the enormous burden that smoking imposes on our nation and our economy; the need to cut teen smoking to start reducing that burden; and the President's call for comprehensive legislation to achieve that goal.

I. Combating Smoking: the Need for a Comprehensive Approach

1. The Human and Economic Costs of Smoking

Smoking is by far the largest preventable cause of premature death in the U.S. As Dr. David Satcher noted in his testimony last week, over 400,000 Americans die each year of tobacco-related diseases. This toll exceeds the deaths from AIDS, homicide, suicide, alcohol use, illegal drug use, fires and auto accidents combined. Recent estimates suggest that on present patterns of tobacco-use, an estimated 25 million of today's Americans will die prematurely from a smoking-related disease.

RR-2318

Behind these heavy human costs of smoking lie equally heavy economic costs for our nation:

- we spend about \$60 billion each year treating smoking related illnesses. On its own, smoking during pregnancy -- which results in 2500 fetal deaths and doubles the odds of being born with low birth weight and potentially suffering problems later in life as a result -- costs the country some \$3-4 billion every year;
- fires caused by smokers cost another \$500 million -- and 2000 lives -- per year;
- smokers with group life insurance push up the premiums of the non-smokers in their insurance pool by about \$4 billion dollars per year;

We must also consider the enormous cost to our economy from all the premature retirements and premature deaths of productive workers that are caused by smoking -- amounting to \$60 billion or more in lost wages.

2. The Importance of Reducing Teen Smoking

There is a strong consensus on the need to reduce smoking in this country and the heavy costs that smoking brings with it. And there is an equally strong consensus on the most effective way to achieve that goal. It is to stop smoking when it starts -- in adolescence. Nine out of ten smokers start when they are in their teens. And the record shows that once they start smoking, they are unlikely to stop.

Each day, 3000 young people become regular smokers. Fully one third of them will have their lives cut short by it, because it causes an addiction that is very hard to shake later on. Nearly half of teen daily smokers think they will not be smoking five years later. Yet only one fifth actually manage to quit. One half of teen smokers try to quit and fail; and by age 18, two-thirds have already regretted starting. The regret is understandable: nearly half of adult smokers try to quit every year, but only about 2.5 percent succeed.

3. The Need For a Comprehensive Approach

The Administration's efforts are guided by another lesson of experience: that preventing youth smoking demands a comprehensive attack on the problem, an approach that makes tobacco companies part of the solution. The fact is that the piecemeal approaches of past years have not worked. Youth smoking has continued to grow through the 1990s and shows no sign of declining.

What is required is a coordinated, comprehensive approach based around the five core components that the President outlined last fall:

- a combination of annual payments and penalties designed to achieve targeted reductions

in teen smoking by raising the price of a pack of cigarettes by up to \$1.50.

- full authority for the Food and Drug Administration to regulate tobacco products;
- real changes in the way the tobacco industry does business, including an end to marketing and promotion to children.
- progress toward other public health goals, including biomedical and cancer research, a reduction of second-hand smoke, promotion of smoking cessation programs, and other urgent priorities
- protection for tobacco farmers and their communities

We believe that all five of these components are critical to a solution and are mutually reinforcing: the effectiveness of any one is substantially increased by the presence of the others. For example, studies in Massachusetts and California suggest that while increasing the price of cigarettes is one of the most cost-effective short-term strategies for reducing tobacco consumption, the ability to sustain that reduction is significantly increased when the price increase comes with a comprehensive anti-smoking campaign along the lines outlined above. And the more we are able to coordinate our efforts across state and county lines, the more effective such an approach will be.

II. The Economic Implications of a Comprehensive Approach

It is in the nature of this comprehensive approach to combat youth smoking that it will involve many parts of our government working together. Thus, several of the components I have described will properly be matters for other departments to address. In my remarks I shall focus mainly on two interrelated aspects of the Administration's approach that are of particular relevance to Treasury: the implications for the pricing of cigarettes and the prevalence of youth smoking. I also will say a few words about the implications for tobacco farmers and manufacturers.

1. The Implications for Cigarette Prices and Youth Smoking

Implications for Prices

A large body of evidence suggests that the most effective way to reduce smoking by young people is to raise the price of cigarettes. Thus, to measure the impact of any tobacco legislation on youth smoking we need to measure the impact on the price of cigarettes to consumers.

The President's budget calls for assessments which would result in cigarette price increases. As Table 1 shows, the budget plan's impact on prices would rise from 62 cents in 1999

to \$1.10 in 2003 in constant dollars. Let me be clear: this figure represents the increases that would be directly attributable to the passage of comprehensive legislation. It does not represent the anticipated increase in the base price of cigarettes during a period in which a number of relevant features of the surrounding environment will be changing. For example, there is the increase in federal excise taxes scheduled to take place over the next five years.

As Table 1 further indicates, we anticipate that without any legislation the baseline price will rise from \$1.94 today to \$2.09 in 2003 in real terms. Combining this rise in the baseline price with the \$1.10 increase resulting from the President's budget, the total price of a pack of cigarettes in 2003, in constant dollars, is projected to be \$3.19.

Mr. Chairman, although such price levels are common in many other countries, they are higher than those we have experienced in the United States. We have been and will continue to be mindful of the many uncertainties about how an increase of this kind will ultimately translate into retail prices. Because our primary goal in this endeavor is to advance public health through the reduction of teen smoking, we have been conservative in many of our calculations in order not to risk falling short of our goals.

Specifically:

- we have assumed that wholesalers and retailers will not add their existing mark-ups to the settlement costs passed on by manufacturers. In fact, virtually all of the relevant empirical evidence¹ suggests that there will be very little "pyramiding" of this kind. That is why the FTC, in their analysis of the original Attorneys General settlement, assume in their baseline that there would not be this kind of mark-up of the payments made by manufacturers in the prices paid by consumers.
- we assume the major increase in pricing nationwide would come as a consequence of federal action in the context of comprehensive legislation, and not as a result of significant tax increases on the part of the states.
- finally, we have not included in our forecasts the additional impact of state sales taxes on the final price of cigarettes, on the grounds that these are not part of the posted price of cigarettes at the point of sale.

It may be that, as several commentators have suggested, these assumptions -- along with our assumptions on other matters such as black and gray market activity, which I will discuss

¹For example, Barnett, Keeler, and Hu's 1995 study estimated a pass-through rate from federal taxes to retail prices of about 102 percent over the 1955 to 1990 period. Sumner's 1981 study over state tax increases the 1954-1978 period found a pass-through rate of 103 to 107 percent, and Merriman's 1994 study estimated a rate of 106 percent.

below -- are too conservative.² I might also note, in this context, that we have assumed that the vast majority of the legislation's cost will be passed on to United States consumers of domestic cigarettes rather than to the shareholders in tobacco companies or consumers of other goods produced by these companies. Clearly the uncertainties involved leave room for reasonable people to disagree.

If our estimates turn out to have understated the eventual impact on prices -- which we do not expect -- the health benefits envisioned in the President's budget would be achieved that much more quickly. Our estimates show that for every 10 cents added to the price of cigarettes, approximately 700,000 fewer teenagers will begin smoking -- and more than 200,000 premature deaths will be avoided.

Overall Implications for Youth Smoking

As I noted earlier, the impact of any given price increase on youth smoking will be significantly increased by other elements of the comprehensive approach the President has called for -- notably, a crackdown on youth marketing and advertising by tobacco companies and more effective enforcement of legal restrictions on tobacco sales to young people.

Studies have found a 69 percent decline in daily use by seventh and eighth graders in Woodridge, Illinois following legislation and enforcement of restrictions on cigarette sales to minors, and a 44 percent decline in junior high school students' smoking in Leominster, Massachusetts as a result of strictly enforced sales restrictions. For our own estimates, we used a conservative assumption that experts have recommended -- that comprehensive sales and marketing restrictions will reduce youth smoking by about 15%.

The combination of the price increase anticipated above and the tighter restrictions on youth access and marketing leads to dramatic reductions in youth smoking. Table 2 presents these results, showing that the price increase reduces teenage smoking by 29%. Youth access and market restrictions reduce teenage smoking by an additional 11%. Furthermore, we estimate that our plan will:

- reduce the number of youths smoking each year by as many as 1.9 million by 2003;
- reduce the cumulative number of youths who smoke between now and 2003 by 3 million;

²For example, Martin Feldman of Salomon, Smith, Barney has estimated that the President's budget will result in a total price per pack which is 34 cents beyond our estimate of \$3.19. However, 30 cents of this extra rise can be explained by his assumption that wholesalers and retailers will add to their existing price mark-ups -- an assumption which runs against virtually all relevant empirical evidence. Another prominent industry analyst, Gary Black of Sanford Bernstein, in his analysis of the June 20 settlement, projects these mark-ups will actually fall.

- and avoid roughly 1 million premature deaths as a result.

These estimates suggest the value of such a comprehensive approach to combating teen smoking. But we cannot and will not let our success in this effort depend on the accuracy of today's best estimates. The many uncertainties involved in making these predictions only underline the importance of incorporating in any legislation the Administration's concrete targets for reducing youth smoking. These aim to cut youth smoking by 30% after 5 years, 50% after 7 years, and 60% after 10 years. And in the strong youth lookback penalties that the President has proposed we have additional insurance that these targets will be met.

We have had fruitful discussions with the staffs of a number of members of both the House and Senate about the appropriate structure of youth lookback penalties, and we recognize that there are several different ways of providing the necessary insurance. But we believe that any lookback penalty structure should not be tax deductible and should meet two principles:

- it must be levied on both the industry as a whole and on individual companies specifically. These two types of penalty structures serve two different purposes. The industry penalties, which are likely to be passed on to price, provide "price insurance", relying on the best tool we have (cigarette prices) to lower youth smoking if we miss our targets. The company specific penalties, on the other hand, provide "non-price insurance," holding specific companies accountable for their actions in selling tobacco products to youth and thereby providing a profit incentive to take other actions to reduce youth use of their products.
- the penalties must be sizeable in those cases where the industry or specific firms miss their targets by a substantial margin. This could be accomplished, for example, by having penalties that increase with the distance the company is from its target.

Let me add that as part of our economic analysis we have also considered issues relating to possible black and gray market activity following legislation. As Figure 1 shows, even in the context of legislation that produced a price increase significantly higher than that presently being considered, cigarette prices in the United States would still be significantly lower than has proved workable in other countries.

The fact that the price increase is primarily to be achieved through direct payments by the tobacco companies should significantly ease the task of enforcement relative to other cases in which the increase is achieved through higher excise taxes at the retail level. But as you know, we have been working with your staff and others on a proposed system of licensing and registration to control the diversion of tobacco and prevent any smuggling that may occur.

2. The Implications For the Tobacco Industry

Questions have arisen about the impact of legislation on tobacco manufacturers and their suppliers. We are confident that the changes in pricing and behavior that we are seeking can be achieved without putting producers' livelihoods or the health of the broader economy at risk.

Tobacco farmers

There are more than 124,000 American farmers engaged in the production of tobacco in this country. Largely concentrated in certain, heavily tobacco-dependent regions, they and their families have already been forced to undergo difficult adjustments as the overall demand for tobacco in this country has declined. We cannot and will not leave these highly vulnerable families and communities behind in crafting a comprehensive approach to reducing smoking much faster in the years to come.

That is why one of the President's principles is protection for tobacco farmers and their communities. And it is why we have supported, in this context, the efforts of the many Senators and House members who have been working to provide for this protection. One method of protecting these farmers is continuing production control programs, such as that included in the LEAF Act supported by Senators Ford, Hollings, and Frist. The Administration agrees that controls on production can be one element of a system that meets the President's five principles, and we look forward to being able to support the product of your work in this area.

As we go forward the President is committed to working with Congress to find the best way both to protect the health of our children and to protect the economic well-being of our farmers. So, too are the coalition for public health and tobacco farming organizations that last week endorsed a set of principles with which both groups could agree. These organizations include the Burley Tobacco Growers Cooperative, the Flue-Cured Tobacco Stabilization Corporation, the American Heart Association, the American Cancer Society, and the Campaign for Tobacco Free Kids. And let me add: we are determined that one important use of the funds raised by higher prices on cigarettes will be the provision of funds to protect the economic well-being of tobacco farmers and their communities.

Tobacco manufacturers

The best evidence suggests that comprehensive legislation consistent with the President's five principles would come at some detriment to the profitability of American tobacco companies. However, it is important to bear in mind that a central feature of both the settlement and all of the legislation that has been proposed to date is an expectation -- indeed, an express desire -- that companies will pass the costs on to the price of tobacco products.

To the extent that the costs are indeed passed on to prices, the impact on the profitability of these companies will be less than many have perhaps imagined and certainly insufficient to

create major disturbance to the economy. The FTC analysis of the June 20 Attorneys General settlement suggested that the total impact of the settlement would lead to, at most, a 15 percent reduction in tobacco industry profits. Applying similar methodologies to the President's budget proposals -- and bearing in mind, once again, the very large uncertainties that exist -- suggests a reduction in operating profits of around 23 percent.

There is also the separate question of how the market would value any given stream of profits in the event that comprehensive legislation reduced some portion of the substantial legal uncertainties these companies presently face. It has been widely acknowledged by Wall Street analysts that the resolution of some of the uncertainties facing this industry will increase the market valuation of the future income streams of tobacco firms. This effect would tend to offset the reduction that I noted in the level of these future income streams.

III. Concluding Remarks

Members of the Committee, as the President has said: "we stand on the verge of one of the greatest public health achievements in history -- an historic triumph in our fight to protect America's children from the deadly threat of tobacco." The opportunity is there for the taking: in the comprehensive, five-part approach that the President has called for and so many in Congress are striving to achieve.

The stakes are high. Every day that we do not take action means that another 3,000 young people will become regular smokers. Just in the time that I have been speaking to you, 20 children have started smoking, and 7 of them will die prematurely as a result. We cannot afford to delay one child longer. If we pass comprehensive legislation that meets the targets laid out in our budget, in five years' time around 40 percent fewer American children will be smokers; in 10 years time, the number will have been halved. I look forward to working closely with you, Mr Chairman, with the members of this committee and with others in Congress as we work to take this historic step forward for the future of our nation and the future of our economy. I would now welcome any questions.

Table 1
 Average Price Per Pack of Small Cigarettes
 FY 1999 Budget Assumptions

Calendar Years	1998	1999	2000	2001	2002	2003
Nominal Prices						
Baseline Price Assumption 1/	1.94	1.99	2.14	2.18	2.29	2.34
FY99 Budget price increases	0.00	0.63	0.82	0.95	1.09	1.24
Total Price	1.94	2.62	2.96	3.13	3.38	3.58
Real Prices (1998 \$)						
Baseline Price Assumption	1.94	1.94	2.04	2.04	2.09	2.09
FY99 Budget price increases	0.00	0.62	0.78	0.89	1.00	1.10
Total Price	1.94	2.56	2.82	2.93	3.09	3.19

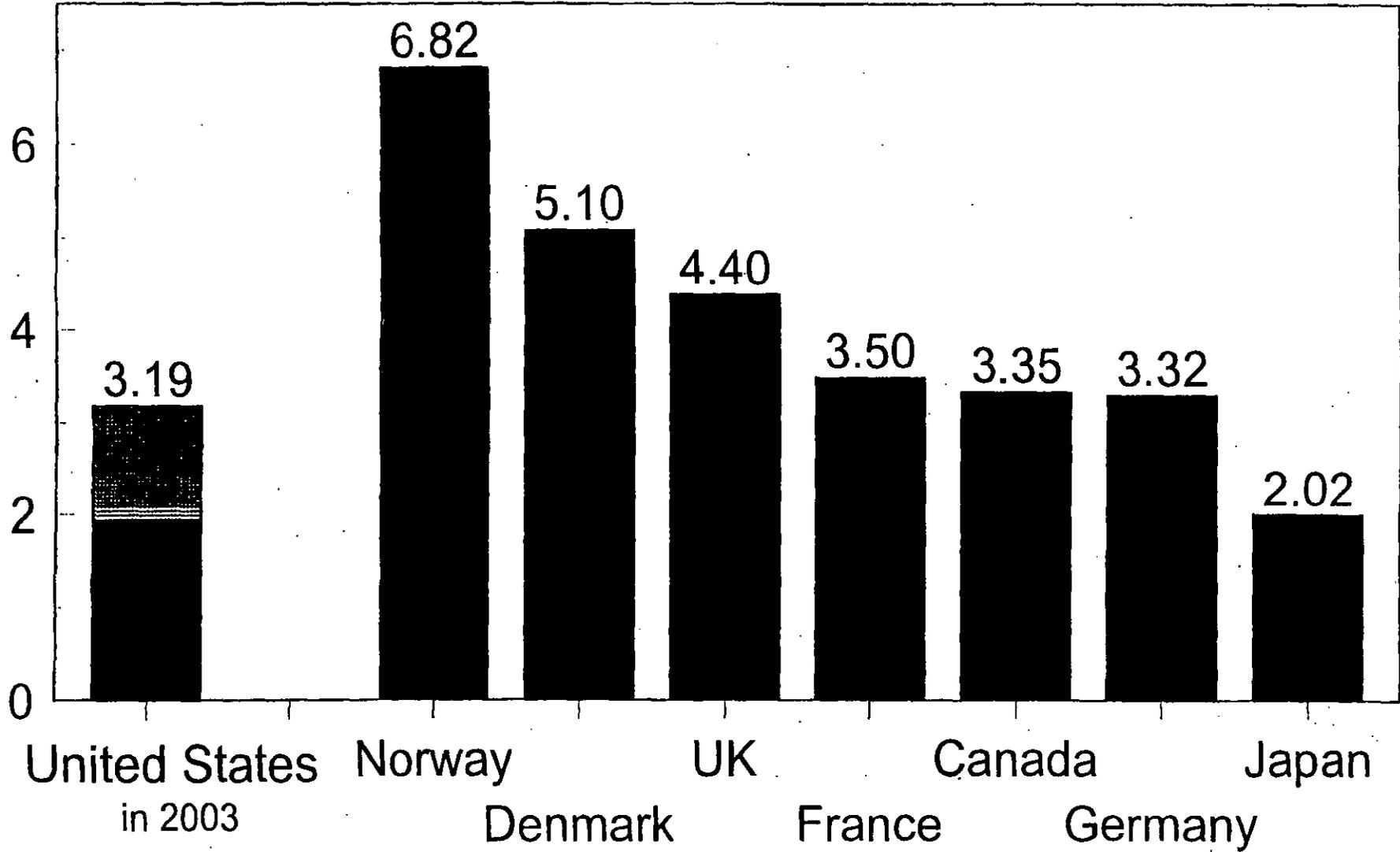
1/ Price assumed is weighted average of premium, generic, and discount cigarettes sold as singles, cartons and case.

TABLE 2: Health Benefits of President's Budget

Baseline Number of Teen Smokers Between 1999-2003	7.6 Million
Percent Reduction due to Price Increase	-29%
Percent Reduction due to Access and Marketing Restrictions	-11%
Cumulative Percent Reduction	-40%
Reduction in Number of Teen Smokers 1999-2003	-3.0 Million
Premature Deaths Avoided	-1.0 Million

National Estimates

Figure 1: Real International Cigarette Prices



Current Prices
 Baseline Increases
 Budget Increment

Source: United Nations, Tobacco Merchants Association, CIA, World Fact Book, Smith Barney Estimates from Smith Barney Tobacco Research, October 22, 1997.

United States figure includes current price, baseline increases, and budget increment in 2003. All others are 1996 equivalent US(\$) retail tobacco prices.

“We must empower parents by giving them the tools to protect their own children from things like tobacco use and reading inappropriate material on the Internet,” Vice President Gore said. “We have an obligation together as parents, teachers, communities and government to help families make sense of today’s changes--to protect our oldest values in new times.”

VICE PRESIDENT GORE ANNOUNCES THAT PRESIDENT’S TOBACCO PLAN WILL CUT SMOKING AND PREMATURE DEATHS BY 42 PERCENT

- Today, Vice President Gore released a new Treasury Department analysis which concludes that every state, including the District of Columbia, will have an average 42-percent reduction in youth smoking and premature deaths under the comprehensive tobacco legislation the President has called on Congress to pass.
- These data shows that the cumulative number of teens kept from smoking would be approximately 3 million over the next five years --a significant increase over previously announced figures, and approximately one million young people would be spared diseases or a premature death as a result of tobacco use.

Fact: Every day, 3,000 young people start smoking and 1,000 of them will die prematurely from a tobacco-related disease. Over three million teenagers -- more than 22 percent of high school students -- smoke cigarettes on a daily basis. Another 2 million smoke on a casual basis and are at risk of becoming chronic daily users.

Vice President Announces State by State Impact of Administration’s Tobacco Proposal on Youth Smoking in Every State

- Last month, the President announced a Treasury department analysis which found that the Administration’s proposal --a price increase of \$1.10 per pack over five years coupled with sales and advertising restrictions --will save a million lives over the next five years. New estimates demonstrate that the Administration’s proposal would have major effects on youth smoking in every state in the Nation:
- Every state, including the District of Columbia, will see an average reduction in youth smoking and resulting premature deaths of 42 percent in the year 2003, with reductions ranging from 33 percent in Washington to 51 percent in Kentucky;
- Fifteen states will see reductions above 45 percent, including Missouri, Wyoming, and Tennessee;

- Over the next five years, the number of young people kept from smoking would be about 3 million underage teens for the country as a whole. Individual states will see reductions ranging from a few thousand in the smaller states up to about 248,000 in California and 205,000 in Texas; and
- Over the next five years, almost one million of today's young people will be spared from premature deaths resulting from smoking-related diseases as the direct result of the Administration's policy. More than twenty thousand lives will be saved in over 16 states, including Florida where 56,000 premature deaths will be prevented and Ohio where the number is 57,000.

Vice President Reaffirm Administration's Commitment To Five Key Principles Essential For Comprehensive Tobacco Legislation

- A comprehensive plan to reduce youth smoking by raising the price of a pack of cigarettes by up to \$1.50 over ten years;
- Full authority of the Food and Drug Administration to regulate tobacco products;
- Changes in how the tobacco industry does business, including an end to marketing and promotion to children;
- Progress towards other public goals, including biomedical and cancer research, a reduction of secondhand smoke, promotion of cessation programs, and other urgent priorities; and Protection for tobacco farmers and their communities.

DRAFT

Talking Points for Conference Call with State Attorneys General March 23, 1998

- * We are meeting regularly with members of Congress on both sides of the aisle in order to ensure passage of comprehensive, bipartisan legislation this year. We are working closely with Senator McCain in the hopes that he will amend his bill in the Commerce Committee to meet the President's five core principles.
- * Today, I am unveiling exciting new state-by-state numbers which reveal that every state will experience an average 42 percent reduction in youth smoking and premature deaths under the President's tobacco proposal. Reductions range from 33 percent in Washington to 51 percent in Kentucky.
- * Fifteen states will see reductions in youth smoking above 45 percent.
- * The new data also shows that three million teens will be kept from smoking over the next five years. This is a significant increase over previously announced figures.
- * These new facts can help build the momentum necessary to pass bipartisan comprehensive legislation at the federal level. I strongly encourage each of you to announce these new statistics in your state, to help raise awareness that we need to put an end to teen smoking. By using these statistics, you can convey that comprehensive federal legislation is necessary to significantly reduce the most devastating and preventable health problem facing our youth today.
- * We cannot delay. Every day, 3000 kids become regular smokers and 1,000 of them will die prematurely from this addiction.

DRAFT - Enacting Comprehensive Tobacco Legislation will Prevent One Million Deaths by the Year 2003

STATE-BY-STATE ANALYSIS

	Percent Reductions in 2003	Cut in the Number of Teen Smokers		Premature Deaths Prevented 1999-2003
		in 2003	1999-2003	
Alabama	46%	27,000	50,000	17,000
Alaska	38%	5,000	9,000	3,000
Arizona	38%	26,000	49,000	16,000
Arkansas	43%	15,000	28,000	9,000
California	40%	132,000	248,000	83,000
Colorado	45%	27,000	51,000	17,000
Connecticut	39%	16,000	29,000	10,000
Delaware	45%	5,000	10,000	3,000
DC	37%	1,000	2,000	1,000
Florida	43%	90,000	168,000	56,000
Georgia	48%	43,000	81,000	27,000
Hawaii	35%	5,000	10,000	3,000
Idaho	43%	7,000	14,000	5,000
Illinois	41%	74,000	139,000	46,000
Indiana	48%	48,000	90,000	30,000
Iowa	42%	16,000	30,000	10,000
Kansas	45%	16,000	29,000	10,000
Kentucky	51%	31,000	58,000	19,000
Louisiana	46%	34,000	64,000	21,000
Maine	42%	9,000	17,000	6,000
Maryland	42%	25,000	47,000	16,000
Massachusetts	35%	26,000	49,000	16,000
Michigan	36%	59,000	111,000	37,000
Minnesota	38%	26,000	49,000	16,000
Mississippi	46%	16,000	29,000	10,000
Missouri	47%	39,000	73,000	24,000
Montana	46%	5,000	9,000	3,000
Nebraska	43%	11,000	20,000	7,000
Nevada	41%	9,000	17,000	6,000
New Hampshire	44%	7,000	14,000	5,000
New Jersey	41%	39,000	74,000	25,000
New Mexico	44%	10,000	19,000	6,000
New York	37%	100,000	188,000	63,000
North Carolina	49%	56,000	106,000	35,000
North Dakota	41%	4,000	7,000	2,000
Ohio	46%	92,000	172,000	57,000
Oklahoma	45%	20,000	38,000	13,000
Oregon	41%	18,000	33,000	11,000
Pennsylvania	44%	85,000	159,000	53,000
Rhode Island	38%	6,000	12,000	4,000
South Carolina	49%	22,000	42,000	14,000
South Dakota	43%	4,000	8,000	3,000
Tennessee	47%	34,000	65,000	22,000
Texas	42%	109,000	205,000	68,000
Utah	43%	10,000	19,000	6,000
Vermont	40%	3,000	7,000	2,000
Virginia	48%	45,000	84,000	28,000
Washington	33%	25,000	48,000	16,000
West Virginia	47%	13,000	24,000	8,000
Wisconsin	40%	33,000	62,000	21,000
Wyoming	47%	3,000	6,000	2,000
U.S.	42%	1,581,000	2,972,000	991,000

Estimates include a 15% reduction in teen smoking and premature deaths due to advertising and marketing restrictions.

**Questions and Answers on State
Youth Smoking Reductions
March 23, 1998**

Q: What did the Vice President announce today?

A: The Vice President announced a new Treasury Department analysis that demonstrates that the Administration's proposal for comprehensive tobacco legislation will have a significant impact in every state and every region in the country in reducing youth smoking and preventing premature deaths. A per-pack price increase of up to \$1.50 over 10 years combined with advertising and access restrictions will result in an average reduction of 42 percent in underage teenage smoking in the year 2003 in every single state, including the District of Columbia. The percentage reductions in underage teen smoking and resulting premature deaths range from 33-36 percent in states like Washington, Massachusetts, and Michigan, to 47-51 percent in states like Wyoming, Tennessee, and Kentucky. Fifteen states will see reductions above 45 percent in the 2003. Over the next five years, the number of young people kept from smoking would be about 3 million young people for the country as a whole. Individual states will see reductions ranging from a few thousand in the smaller states up to about 248,000 in California and 205,000 in Texas.

Q: What is your support for saying that one million lives can be saved over 5 years if Congress passes comprehensive legislation?

A: Last month, the President announced a Treasury department analysis which found that the Administration's proposal -- a price increase of \$1.10 per pack over five years coupled with sales and advertising restrictions -- will save a million lives over the next five years. This report concludes that underage smoking would be reduced by nearly half. Based on new data, we now estimate that cumulatively over the next five years, approximately 3 million underage teens would be kept from smoking -- an increase from the 2.4 to 2.8 million previously reported. Because the number of premature deaths from smoking is about one-third of actual smokers, the Administration's proposal would prevent almost a million premature deaths over the next five years.

Q: Many legislators and public health officials have said that tobacco legislation must not include limits on liability. What is the Administration's position?

A: The President would prefer legislation without liability limits, but will evaluate tobacco legislation as a whole to determine whether it protects public health. In the context of a comprehensive bill that meets the President's five principles and advances the public health, reasonable limits on liability will not be a dealbreaker. What's important is achieving comprehensive legislation that includes a large per-pack price increase, strong penalties for marketing to children, and affirmation of FDA's authority to restrict advertising aimed at children and prevent children's access to tobacco products.

Tob-set - Treasury youth smoking report

A Comprehensive Approach to Reducing Youth Smoking STATE-BY-STATE ANALYSIS

Reducing youth smoking is the best way to reduce the overall incidence of smoking in the future; 90 percent of adult daily smokers first begin smoking cigarettes as teenagers.

The most reliable method for reducing teen smoking is to increase the price of cigarettes.

- A large number of rigorous economic studies have shown that teen smoking is responsive to changes in the price of cigarettes. A consensus view is that the number of teen smokers declines by about 7 percent for a 10 percent increase in the real price of cigarettes. This relationship represents the average response to small changes around current prices, and our model allows this responsiveness to decline as prices rise sharply — since the smokers that remain at high prices have revealed that they are less responsive to price signals.

Additional efforts beyond price changes can help to reduce youth smoking -- such as eliminating vending machines, enforcing restrictions on sales to youths, eliminating advertising aimed at youths, and anti-smoking counter-advertising .

- A number of experts in this area suggest that a conservative assumption for the impact of comprehensive sales and marketing restrictions is a 10-20% reduction in youth smoking. Based on their opinion and the existing literature, we use this range for our estimates.

The Administration's Budget proposal calls for a significant increase in the real price of cigarettes over the next five years.

- As we have reported previously, that price increase — coupled with comprehensive sales and advertising restrictions — will lead to a 39 to 46 percent reduction in underage teen smoking in five years.

State-by-State Estimates

The attached Tables provide updated and more detailed estimates of these effects in each and every state. These figures illustrate that a combination of price increases and access/marketing restrictions will have a major impact on youth smoking in every state and region of the country.

- The percentage reductions in underage teen smoking and resulting premature deaths range from 29-40% in states like Washington, Massachusetts, and Michigan, and from 43-54% in states like Wyoming, South Carolina, and Kentucky.
- While the steps taken in each state will be the same, the percentage reductions that result differ across states because each is starting with different cigarette price levels.

- In 2003 alone, the number of young people kept from smoking would be in the range of about 1.4 to 1.7 million teens for the country as a whole. Individual states will see reductions ranging from a few thousand in the smaller states up to about 116,000 in California.
- Over the next five years, we now estimate that the cumulative number of young people kept from smoking would be in the range of about 2.7 to 3.3 million teens. (These estimates reflect new data and thus are larger than the ones reported previously.) Typical results are in Oklahoma, Mississippi, and Maryland, which will see cumulative reductions of about 32,000-47,000 teen smokers.
- The direct result of these policies over the next five years is that about 1 million of today's young people will be spared from premature deaths resulting from smoking-related diseases. States like Idaho, Maine, and Delaware — where the number of such deaths avoided will be around 3-6 thousand — are typical of the lower range of estimates. States like New Jersey, North Carolina, and Wisconsin — where the number of such deaths avoided will be around 18-37 thousand — are reflective of the higher range of estimates.
- These estimates are based on daily smoking rates. Because underage teen smoking on less than a daily basis frequently leads to daily smoking and the subsequent risk of death and disease, the figures understate the total benefits of these policies. Similarly, there are many more pre-teens who will eventually be discouraged from smoking and go on to lead longer, healthier lives as a result.
- Because there remains some uncertainty in our estimates of the impact of these policies, the President has also called for youth smoking penalties on the tobacco industry to help ensure that we meet our youth targets.

10.0% non-price effect (numbers of teens in thousands)

	Percent Reductions in 2003	Cut in the # of Teen Smokers in 2003	Cumulative Cut 1999-2003	Premature Deaths Avoided 1999-2003
Alabama	-43%	-28	-52	-17
Alaska	-35%	-4	-8	-3
Arizona	-34%	-22	-41	-14
Arkansas	-40%	-14	-26	-9
California	-37%	-116	-215	-72
Colorado	-41%	-24	-44	-15
Connecticut	-36%	-14	-25	-8
Delaware	-42%	-5	-9	-3
DC	-33%	-1	-2	-1
Florida	-40%	-83	-154	-51
Georgia	-45%	-39	-73	-24
Hawaii	-31%	-4	-7	-2
Idaho	-40%	-7	-13	-4
Illinois	-37%	-67	-125	-42
Indiana	-45%	-48	-88	-29
Iowa	-39%	-17	-31	-10
Kansas	-42%	-16	-29	-10
Kentucky	-48%	-30	-56	-19
Louisiana	-43%	-33	-62	-21
Maine	-39%	-9	-16	-5
Maryland	-38%	-21	-39	-13
Massachusetts	-31%	-23	-42	-14
Michigan	-32%	-55	-103	-34
Minnesota	-35%	-22	-41	-14
Mississippi	-43%	-17	-32	-11
Missouri	-44%	-32	-59	-20
Montana	-43%	-4	-8	-3
Nebraska	-39%	-11	-20	-7
Nevada	-37%	-8	-14	-5
New Hampshire	-41%	-6	-12	-4
New Jersey	-38%	-36	-66	-22
New Mexico	-41%	-11	-20	-7
New York	-34%	-90	-168	-56
North Carolina	-46%	-52	-96	-32
North Dakota	-38%	-4	-7	-2
Ohio	-43%	-96	-179	-60
Oklahoma	-42%	-21	-39	-13
Oregon	-37%	-17	-32	-11
Pennsylvania	-41%	-82	-152	-51
Rhode Island	-35%	-7	-12	-4
South Carolina	-46%	-20	-37	-12
South Dakota	-40%	-4	-8	-3
Tennessee	-44%	-33	-62	-21
Texas	-39%	-95	-176	-59
Utah	-39%	-10	-19	-6
Vermont	-37%	-3	-6	-2
Virginia	-44%	-40	-74	-25
Washington	-29%	-19	-36	-12
West Virginia	-44%	-12	-23	-8
Wisconsin	-37%	-29	-54	-18
Wyoming	-43%	-3	-6	-2
U.S	-39%	-1464	-2720	-907

20.0% non-price effect (numbers of teens in thousands)

	Percent Reductions in 2003	Cut in the # of Teen Smokers in 2003	Cumulative Cut 1999-2003	Premature Deaths Avoided 1999-2003
Alabama	-49%	-32	-61	-20
Alaska	-42%	-5	-10	-3
Arizona	-41%	-27	-51	-17
Arkansas	-47%	-16	-30	-10
California	-44%	-138	-262	-87
Colorado	-48%	-28	-52	-17
Connecticut	-43%	-16	-31	-10
Delaware	-48%	-6	-10	-3
DC	-40%	-1	-3	-1
Florida	-47%	-97	-183	-61
Georgia	-51%	-45	-85	-28
Hawaii	-39%	-5	-10	-3
Idaho	-46%	-8	-16	-5
Illinois	-44%	-80	-152	-51
Indiana	-51%	-54	-102	-34
Iowa	-46%	-20	-38	-13
Kansas	-48%	-18	-34	-11
Kentucky	-54%	-34	-64	-21
Louisiana	-49%	-38	-72	-24
Maine	-45%	-10	-19	-6
Maryland	-45%	-25	-47	-16
Massachusetts	-39%	-28	-54	-18
Michigan	-40%	-68	-130	-43
Minnesota	-42%	-27	-51	-17
Mississippi	-49%	-20	-37	-12
Missouri	-50%	-36	-69	-23
Montana	-50%	-5	-10	-3
Nebraska	-46%	-13	-24	-8
Nevada	-44%	-9	-17	-6
New Hampshire	-48%	-7	-14	-5
New Jersey	-45%	-42	-80	-27
New Mexico	-48%	-12	-23	-8
New York	-41%	-110	-209	-70
North Carolina	-52%	-59	-111	-37
North Dakota	-45%	-4	-8	-3
Ohio	-49%	-111	-209	-70
Oklahoma	-48%	-24	-46	-15
Oregon	-44%	-20	-38	-13
Pennsylvania	-48%	-95	-180	-60
Rhode Island	-42%	-8	-15	-5
South Carolina	-52%	-22	-43	-14
South Dakota	-47%	-5	-9	-3
Tennessee	-50%	-38	-72	-24
Texas	-45%	-112	-212	-71
Utah	-46%	-12	-22	-7
Vermont	-44%	-4	-7	-2
Virginia	-51%	-46	-86	-29
Washington	-37%	-25	-47	-16
West Virginia	-50%	-14	-27	-9
Wisconsin	-44%	-35	-66	-22
Wyoming	-50%	-4	-7	-2
U.S.	-46%	-1717	-3256	-1085

A Comprehensive Approach to Reducing Youth Smoking STATE-BY-STATE ANALYSIS

Reducing youth smoking is the best way to reduce the overall incidence of smoking in the future; 90 percent of adult daily smokers first begin smoking cigarettes as teenagers.

The most reliable method for reducing teen smoking is to increase the price of cigarettes.

- A large number of rigorous economic studies have shown that teen smoking is responsive to changes in the price of cigarettes. A consensus view is that the number of teen smokers declines by about 7 percent for a 10 percent increase in the real price of cigarettes. This relationship represents the average response to small changes around current prices, and our model allows this responsiveness to decline as prices rise sharply — since the smokers that remain at high prices have revealed that they are less responsive to price signals.

Additional efforts beyond price changes can help to reduce youth smoking — such as eliminating vending machines, enforcing restrictions on sales to youths, eliminating advertising aimed at youths, and anti-smoking counter-advertising .

- A number of experts in this area suggest that a conservative assumption for the impact of comprehensive sales and marketing restrictions is a 10-20% reduction in youth smoking. Based on their opinion and the existing literature, we use 15% for our estimates.

The Administration's Budget proposal calls for a significant increase in the real price of cigarettes over the next five years.

- As we have reported previously, that price increase — coupled with comprehensive sales and advertising restrictions — will lead to about a 42 percent reduction in underage teen smoking in five years.

State-by-State Estimates

The attached Tables provide updated and more detailed estimates of these effects in each and every state. These figures illustrate that a combination of price increases and access/marketing restrictions will have a major impact on youth smoking in every state and region of the country.

- The percentage reductions in underage teen smoking and resulting premature deaths range from 33-36% in states like Washington, Massachusetts, and Michigan, to 47-51% in states like Wyoming, South Carolina, and Kentucky.
- While the steps taken in each state will be the same, the percentage reductions that result differ across states because each is starting with different cigarette price levels.

- In 2003 alone, the number of young people kept from smoking would be about 1.6 million teens for the country as a whole. Individual states will see reductions ranging from a few thousand in the smaller states up to about 132,000 in California.
- Over the next five years, we now estimate that the cumulative number of teens kept from smoking would be around 3 million. (These estimates reflect new data and thus are larger than the ones reported previously.) Typical results are in states like Oklahoma, Mississippi, and Maryland, which will see cumulative reductions of about 29,000-47,000 underage teen smokers.
- The direct result of these policies over the next five years is that about 1 million of today's young people will be spared from premature deaths resulting from smoking-related diseases. States like Idaho, Maine, and Delaware — where the number of such deaths prevented will be around 3-6 thousand — are typical of the lower range of estimates. States like New Jersey, North Carolina, and Wisconsin — where the number of such deaths prevented will be around 21-35 thousand — are reflective of the higher range of estimates.
- These estimates are based on daily smoking rates. Because underage teen smoking on less than a daily basis frequently leads to daily smoking as an adult — and the subsequent risk of death and disease — these figures understate how many premature deaths will be prevented. Moreover, these policies will continue to discourage teen smoking after 2003, and even more young people in each state will go on to lead longer, healthier lives as a result.
- While these figures are estimates, the President has called for youth smoking penalties on tobacco companies and the industry as a whole to help ensure we meet our youth targets.

Tob- set - Treasury youth smoking report

Office of Economic Policy
Department of the Treasury
Washington, D. C. 20220

FAX

March 20, 1998

Number of Pages (including cover): 10

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REMARKS:

We decided it would be easier NOT to do a conf. call today, but instead just have people **contact me by COB today if they have major problems with the attached draft of Larry Summers' speech.** I realize talking about smoking as an economic problem can come off as callous, but that's the basic tasking as I understand it. We'll probably have a conf. call on Monday to go over technical details with CDC and HHS about how we got some of the numbers, but are just looking now for reactions to the basic structure. We should also be sending around a draft of the accompanying report which Larry S. will issue in conjunction, which goes into more of the details.

Outline - LS Tobacco Speech**INTRODUCTION**

- Pleasure to be here at GW School of Public Health
- The rapid growth of SPH such as this one heralds the fact that the U.S. enters the 21st century with a medical system that is the envy of the rest of the world
- The past 20 years have seen dramatic improvements in the health of Americans along a wide variety of dimensions. Life expectancy for both men and women is up 5 years since the mid-1960s. Infant mortality has seen even more dramatic improvements, having fallen by nearly three-fourths since 1960 and by two-thirds since 1970.
- Yet, we enter the 21st century with a large blemish on our public health record as a nation: the enormous prevalence of smoking in America
- Smoking is by far the largest preventable cause of premature death in the U.S.
 - More than 430,000 deaths per year are attributed to tobacco use (latest figures are 1990-1994) [The overall leading cause of death is heart disease at 500,000 non-smoking related deaths per year.]
 - Tobacco use results in more deaths each year in the US than AIDS, alcohol, cocaine, heroin, homicide, suicide, motor vehicle crashes, and fires combined.
 - Smoking-related lung cancer alone results in 123,000 deaths annually in the US.
- That smoking represents a major public health problem is well known and well documented. You may be wondering why the Treasury Deputy Secretary — who has a doctorate in economics, not an M.D. — is here to talk about this issue. The reason is that I want to try to recast the debate and focus on smoking as an economic problem — one that imposes costs on society and reduces our economic well being.
 - with our economy sound and budget deficits which so occupied our attention becoming a thing of the past, we can turn our focus to confront other problems.

PERILS OF THE STATUS QUO

- I want to start making the case for action now by focussing on the problems that will continue to plague us if we do nothing.

If we don't act now, diseases caused by smoking will continue to use up scarce medical resources at a high rate.

*disclaimer -
an addition
to, not substit
for, more
trad ways of
looking at problem*

- As the Surgeon General has recently testified, we spend around \$50 billion per year treating smoking related illness. At least that was the estimate in 1993 — as an economist I always like to put things in current dollars, so this would be nearly \$60 billion now. Either way, this is about 7% of national medical expenditures [double-check].

- Aggregate figures can sometimes be hard to grasp, so maybe it will underscore the importance of strong action now if I try to quantify the future medical costs of a young person taking up smoking today.

- If you are male, studies show your smoking may cost as much as \$12,700 in excess medical costs over the course of your life. If you smoke more than a pack a day, your lifetime in excess medical costs will add up to about \$19,000.

- If you are female, the cost is even higher. Your smoking may cost as much as \$14,800 over your lifetime in excess medical costs. If you smoke more than a pack a day, your excess medical costs may be as high as \$25,800 over your lifetime.

- To put these costs in perspective, compare them to your tuition bill. A 15-unit semester here at GW currently costs \$9,375, and the tuition for the Master's will cost up to \$22,500.

- And keep in mind that these costs of smoking have been discounted; they represent even larger expenditures many years in the future, when the effects of smoking take their toll. And they are also net figures — that is, they take into account the fact that if people don't smoke they will live longer and use some additional medical services in the process.

- In this world of strong pressure to control medical costs, these are precious resources that could be devoted to combating other illnesses that are not under our control

If we don't act now, smoking during pregnancy will continue to impose significant costs on the health care systems and on babies' development.

- Smoking while pregnant

- increases the severity of complications during pregnancy and delivery, so that a smoker who develops complications not only costs more than an average pregnancy, she also costs about \$8,000 more on average than a non-smoker who develops complications.

- doubles the risk of having a low-birth weight baby, as many as half of which are admitted to the neo-natal intensive care unit — at a cost of thousands per day.

- raises the risk of all the developmental and medical difficulties that come with being a low-birth weight baby — not only more likely to be sick, but also more likely to repeat a grade and 50% more likely to wind up in special education classes.

- These aspects of smoking during pregnancy impose costs estimated at \$3-4 billion per year. These are in addition to the medical costs of smoking-related like lung cancer and heart disease I cited above.

- Even so, these figures do not include the costs of

- fetal deaths — smoking is estimated to cause 2,500 deaths each year (I'll talk more about how to think about this cost a bit later); and

- post-adolescent problems — children who repeat a grade are more likely to drop out of school, and have lower earnings, commit more crimes, and require more social services than high school graduates or those who go on to college.

If we don't act now, the problems of second hand smoke will continue.

-- Issue of second hand smoke is controversial, so I will touch on a few of the findings but not include these effects when I total up the costs of smoking.

-- Among adults, second hand smoke has been estimated to cause about 3,000 cases of lung cancer and 32-35 thousand deaths due to heart disease annually.

-- For our children, exposure to second hand smoke may cause about 15,000 hospitalizations with respiratory illnesses, exacerbate asthma in 200,000 to 1 million kids, and increase the number of new asthma cases.

-- Over seventy percent of adult exposure to second hand smoke is outside the home. Studies have shown that workplace smoking bans in combination with comprehensive stop-smoking programs can help more people quit smoking and decrease the average number of cigarettes smoked daily.

If we don't act now, smoking will continue to impose a number of standard "external" costs on society.

- Economists tend to focus on costs people impose on others — so-called externalities. In the case of smoking there are a few. Smokers with group life insurance are being subsidized by lower-risk non-smokers to the tune of about \$4 billion per year. Some have even estimated large costs for cleaning and repainting homes and offices due to smoking, though questions remain about the reliability of the estimates. More consensus exists around the costs of fires caused by smoking, which do over \$500 million worth of damage every year. And that figure does not include the cost of roughly 2,000 lives that are lost every year in these fires.

If we don't act now, smoking will continue to reduce the productive capacity of our economy.

Why?
saying data
is bad?

- This happens in a number of ways.

- cost of missed workdays. Smokers are absent around 50% more often than non-smokers, the cost of which has been estimated at anywhere at \$500 million a year or more. [drop b/c so small?]

- real productivity reduction from being a smoker - one recent studies found that — controlling for other factors — smoking lowers wages by 4-8%. Some of this may represent employers passing through their extra medical costs (which we've counted already), but even excluding these the effect on wages would be about \$50-\$125 billion per year, according to this estimate.

- now there will continue to be controversy among economists [Truman still searching for one-handed economist?] about whether this represents a true effect of smoking or is just capturing things about people who smoke that affect their wages and are hard to measure. I won't step into that debate except to say that their are findings — from studies of army recruits, etc. — that smoking reduces the capacity for physical labor even among the relatively young. So findings of productivity and wage effects should not be dismissed completely even if they may not be as large as some estimates.

- less debatable is the cost to society of the productive capacity we lose because smokers die earlier and also retire earlier. Based on previous work in this area, this effect can be estimated at nearly \$2.50 per pack or about \$60 billion per year.

If we don't act now, 3,000 teens a day will continue to take up smoking — a “decision” which (among many other things) it's fair to describe as irrational.

- If adults decide to smoke that's one thing, but 90% of adult smokers started when they were teens and it's far from clear that they were carefully weighing the costs and benefits at the time.

- Are a number of reasons to think teens make poor choices — as reflected in public policy decisions to bar teens from doing any number of things, including drinking, voting, or buying cigarettes and other tobacco products.

- In particular, it's not clear that teens realize how hard it will be to quit smoking when they start.

— According to one reputable survey, nearly half of teen daily smokers think they won't be smoking five years later, but only about 20% manage to quit. Only 15% of light teen smokers [< 1/day] thought they would still be smoking 5 years later, but 45% were in fact still smoking — most at higher levels of intensity.

— Nearly a third of 12th graders and half of 8th graders see no great risk of harm in smoking a pack or more of cigarettes per day.

- It doesn't take them long to find out, but by then it's usually too late.

— It has also been reported [get source] that half of teens try to quit and fail — a finding confirmed by tobacco comp internal studies — and that by age 18, two-thirds already regretted starting.

- As we know, adolescence is a period of experimentation, and teens experiment with a lot of things, but tobacco is one that can really stick with them. Teens experiment with how they dress, too, but can move on. Can you imagine what this room would look like if we were all stuck with the clothing choices we made in high school?

- Adults certainly seem to regret their “decisions” to smoke. About two-thirds say they want to quit smoking, and nearly half try to quit every year, but only about 2.5% succeed. Spend upwards of \$500 million a year on over-the-counter nicotine substitutes — even though these apparently have all the appeal of dieting on rice cakes, so demand for them reflects only the most motivated.

- Because of these considerations — and especially because we are talking about the actions of teens — we feel justified in taking into account costs smokers impose upon themselves and their family, not just the ones they impose on strangers, when we consider the total costs of smoking and what we should do to reduce them.

- The clear medical evidence on smoking's addictiveness is also why we firmly believe that an attack on smoking will not lead put us on a slippery slope to frivolous measures like taxing sugar or caffeine or other habits that are merely unhealthy or risky, as some critics charge [or some point like this to combat critics]

- One very striking piece of evidence on this is that about 50% of smokers who have lost a lung because of cancer or have undergone major cardiovascular surgery maintain abstinence for more than a few weeks.

If we don't act now, about a third of smokers will die prematurely — which represents a tremendous loss to our nation in many senses, including economic. [need to fix language since death *rate* won't change, just number at risk]

- What I have in mind is estimating the value of these lost years of life in the way that economists do. This is of course difficult, for at least two reasons.

- First, it is very difficult to know how to value a foregone year of life.

- Economists have tried to estimate this by examining the value of life implicit in decisions people make — trying to capture the value people place on their own lives.

- It seems fitting that I'm talking about this at a school named for the father of our country since the practice dates back to 1776 — when Adam Smith observed that risky jobs would command a higher wage as compensation.
- Though it can be difficult to separate out the objective risks of a job from the preferences of workers, the findings in the literature tend to support a figure in the range of \$3 million or even more as the value of life. I'll even be a bit conservative and use \$2.5 million since it reflects the figure used in one of the more influential analyses of smoking's costs.
- Second, the fact that individuals are leading shorter lives has a cost savings to the rest of the economy which we have to admit. Smokers are likely to collect less in Social Security benefits — though they also contribute somewhat less to its financing as well — and may be less likely to end up in a nursing home. Also, as I noted earlier, if smoking were eradicated and people lived longer, additional medical costs over the course of their longer life would offset somewhat the \$60 billion in savings from smoking-related medical costs noted earlier.
- But even accounting for these offsetting features, at a reasonable value of a life-year there are large net costs from earlier death
 - Each cigarette takes about 7 minutes off your life. Using a value of life of about \$2.5 million, the 24 billion packs smoked in the U.S. each year are costing us about \$200 billion per year in shortened lives. [over \$8 per pack]
 - critics of this approach may charge paternalism, but doesn't it seem appropriate to take into account effect on kids later lives?
 - Plus another \$10 billion for cost of fetal deaths and deaths in fires.
 - Even taking an estimate of pension and medical costs at the larger end, net costs still amount to about \$150 billion per year. [value of life calc includes the \$60 billion in lost productivity due to early death and retirement]
- Putting these three factors together, medical costs, non-medical costs, and the value of foregone years of life, we find a net cost to the U.S. economy of smoking of at least \$230 billion ^{any way} per year — or more if we include some of the effects on wages that have been found [put in perspective relative to lost output from a recession or something]
- Of course, even if smoking were eradicated tomorrow, the effects of past smoking would linger on. So these savings represent the eventual boost to the economy that could be achieved.

If we don't act now, we will leave in place an incomplete set of policies.

- The federal tax on cigarettes has barely kept pace with inflation in the last three decades, while federal and state taxes combined are at the same level now as when the first surgeon general's report on smoking was released in 1964 — and this is only because of the historic increase in the federal tax of last summer.

- In the absence of federal actions, some states will continue to take their own measures to reduce smoking, but they will not have the impact of an integrated federal plan of attack, and among other things a patchwork approach is unlikely to provide much protection for tobacco farmers and their communities. Advertising and marketing restrictions that are done in a coordinated national way are also sure to be more effective than the actions of an isolated set of states. [add other advantages of national approach over state-by-state approach]

- The Clinton administration has taken real steps towards strengthening FDA regulatory authority, and the courts have recently affirmed its authority to implement federal youth access restrictions. FDA has already conducted 10,000 checks on retailers in 10 states, and we have requested funding to expand the program nationally, but there are so many places to buy cigarettes that there is only so much we can accomplish by addressing supply. And even if issue of whether FDA can regulate tobacco advertising can make it out of court, policy to date would still resemble one-legged stool.

} ? i.e.
absence
of price?

WHAT WE MUST DO

- I've talked so far about the costs of not acting, but now I need to discuss what we should do.
- What is needed is a comprehensive attack on smoking, and particularly on the rising number of youths smoking in the U.S.
- As the President has said, such a comprehensive approach would have several important features:
 - Substantial real price increases - the best way to combat smoking, particularly among youth - for every 10% rise in price, 7% fewer youths will smoke
 - Real restrictions on access of youth to tobacco products and marketing to youth by tobacco companies
 - The bad news is that we have a lot of catching up to do; studies have shown that almost as many six year olds can recognize Joe Camel (91%) as Mickey Mouse (96%).
 - At the same time, there are some inspiring success stories out there. Studies

found a 69 percent decline in daily use by seventh and eighth graders in Woodridge, Illinois following legislation and enforcement of restrictions on cigarette sales to minors, and a 44 percent decline in junior high school students' smoking in Leominster, Massachusetts as a result of strictly enforced sales restrictions.

- In our own estimates, we have used the conservative assumption recommended by experts — that comprehensive set of sales and marketing restrictions will reduce youth smoking by about 15%.

- Strong youth lookback penalties that provide insurance that we will meet ambitious youth smoking targets. These penalties should apply to both the industry as a whole and to individual companies, providing both price and non-price insurance.

- Full authority for the Food and Drug Administration to regulate tobacco products.

- Progress toward other public health goals, including biomedical and cancer research, a reduction of second hand smoke, promotion of smoking cessation programs, and other urgent priorities.

- Protection for tobacco farmers and their communities.

- This type of comprehensive approach will have real and tangible benefits for the health of the U.S. population

- Recently released data from the Treasury department shows that the increases in the price of tobacco products arising from the President's budget proposal would:

- lower youth smoking by 42% by 2003
- reduce the number of youths smoking each year by as many as 1.9 million by 2003
- reduce the cumulative number of youths who smoke between now and 2003 by 3 million
- avoid roughly 1 million premature deaths as a result

- By lowering the number of people who start smoking by over 40%, the President's proposal could ultimately save the U.S. economy about \$100 billion per year. [put in perspective relative to other government policies]

[add more on what the world will be like once we take these actions — show separate effects of price increase and advt/marketing restrictions, expand discussion of lookback penalties and their economic rationale]

*This is
what to
emphasize*



CONCLUSION

- As we move into the 21st century, the U.S. economy and its medical system is the envy of the rest of the world
- We are making enormous strides to solve once seemingly unsolvable medical problems, while at the same time effectively restraining the underlying growth in medical care costs which once threatened the stability of the system
- But we can no longer turn a blind eye to the one place where the answer is so simple: reducing smoking. Other solutions are no solution at all. For example, future advances in treatments may reduce the effect of smoking on length of life, but likely at the expense of higher medical costs.
- By passing the President's budget plan as part of comprehensive tobacco legislation, Congress can save about 3 million children from taking up smoking by 2003, and save the U.S. economy \$...
- The time to act is now.

Tobac - nr - youth Treas smoking report

smkgs - 1306 per year in sheltered with live, health care costs, etc

P's plan - 4296↓ - ASS

March 24, 1998 DRAFT

"Freeing our Nation and Our Economy From the Burden of Tobacco"

Remarks by Lawrence H. Summers

Deputy Secretary of the Treasury

George Washington School of Health

Washington, DC

March 25, 1998

Thank you. It's a pleasure to be here at George Washington School of Public Health to discuss an issue of such tremendous importance to the health of our nation and of our economy.

We meet at an auspicious time, a time when the economic enemies of our past seem far from view. Inflation and unemployment are at their lowest in a generation. And the budget deficit -- the burden that so long weighed us down -- has been lifted. There could not be a better time to adjust our sights, and look to the future. Our economic good health provides us with a golden opportunity to invest in a stronger, richer America to bequeath to our children. But a large part of that effort will be for nought if we do not banish the threat that has not been conquered: the threat of a life cut short by cigarettes.

We have long known the dangers -- and we have long taken insufficient actions to combat them. Smoking is still by far the largest preventable cause of premature death in the U.S. It is still directly responsible for 430,000 deaths per year -- more than all of the deaths associated with AIDS, alcohol, cocaine, heroin, homicide, suicide, auto accidents and fires combined. And it is still a fatal habit that every day 3,000 American children take up -- 1,000 of whom will die prematurely as a direct result.

None of you will need reminding of these better known consequences of smoking -- still less by a Deputy Secretary of the Treasury with a doctorate in economics. What has gone under-discussed is the heavy economic cost that smoking inflicts. It is this economic burden that I would like to focus on today, with particular reference to a new Treasury study into these costs that was released this morning (*) I shall then explain why comprehensive tobacco legislation along the lines the President has called for provides the only sure way to combat smoking once and for all; and the very real human and economic benefits that would come from putting such legislation in place.

I. Tobacco: The Price We Pay for Inaction

Policy makers -- no less than scientists -- are perhaps at their most persuasive when they focus on the counterfactual. In calculating the overall economic cost of smoking the Treasury study had to consider the full range of costs associated with smoking -- costs that we would continue to pay if we failed to take comprehensive action.

1. The waste of scarce medical resources

The Surgeon General recently testified that smoking related illnesses cost our nation more than \$50 billion in 1993. Adjusted for inflation, the figure today would be closer to \$60 billion -- or 7 percent of the nation's total spending on health (*) -- with more than 40 percent of those costs being met with public funds. Taking the analysis to the level of individuals, a young woman who starts smoking today can expect to face an extra \$14,800 in additional lifetime medical costs as a result of that decision. And if she smokes more than a pack a day, her additional lifetime costs could be well over \$25,000. The tuition costs for a Master's Degree here at GW almost sound cheap in comparison -- a "mere" \$22,500.

2. The extra costs when smokers' give birth

Smoking while pregnant costs an estimated \$3-4 billion per year in additional medical costs, due to the increased severity of complications during pregnancy and delivery and the higher risk of having a low-birth weight baby. What is more, low-birth weight children have a much higher probability of skipping grades and thus a higher chance of dropping out of school -- meaning lower earnings, a greater likelihood of committing crimes, and a much higher chance of needing social services than high school graduates or those who go on to college. Our study does not attempt to take account of these long-term costs, but have no doubt that the costs are real. (I presume not included in the study?)

3. The costs of smoking-related externalities

Consider: smokers with group life insurance are being subsidized by lower-risk non-smokers to the tune of about \$4 billion per year, and fires caused by smokers cost this country some 2,000 lives, and more than \$500 million worth of damage each year. The costs of second-hand smoking are more a matter for dispute. But for children alone this may result in about 15,000 hospitalizations with respiratory illnesses, exacerbate asthma in 200,000 to 1 million kids, and increase the number of new asthma cases.

4. The cost in reduced productive capacity of our economy

Smokers tend to die younger and retire sooner. That carries a price to our economy in lost output and lost wages that careful analysis suggests could be as high as \$60 billion a year. And this does not take account of the more hidden drain on the economy associated with smoking: not least, the fact that smokers are off work 50 percent more often than their non-smoking colleagues. (Some studies have suggested that, other things equal, the lower productivity associated with smoking translates into 4 to 8 percent lower earnings for smokers. Our study excludes these more speculative estimates, but it is worth noting that including it might add another \$50- \$125 billion to the economic cost of smoking.)

6. The cost in shortened lives

No dollar total will ever do justice to the price of a life cut short. But here of all places you know

that cannot be the end of the discussion. Policy is about competing priorities. If economists and others did not try to capture the cost of a lost life, all too often that cost might go overlooked. The figure usually arrived at for the value of a human life is in the region of \$3 million -- sometimes more. Our own Treasury estimates are based on the more conservative estimate of \$2.5 million. With each cigarette smoked stripping another 7 minutes from the average smoker's life, that would suggest that the 24 billion packs of cigarettes smoked in this country every year are costing us about \$200 billion per year in shortened lives -- the equivalent of \$8 dollars for every pack.

Add to this last figure the \$10 billion cost of fetal deaths and fire victims, and even on conservative estimates of the Social Security and related consequences of smokers dying young, we calculate a net cost of smoking in lost human life of some \$150 billion per year.

(***SOCIAL SECURITY ISSUE ***)

7. Counting the cost

Putting together the three largest and most easily measured consequences of smoking I have mentioned -- medical costs, non-medical costs and the value of foregone years of life -- yields a net cost of smoking to the United States economy of upwards of \$230 billion per year -- more if we include some of the wage effects I mentioned earlier. (HOW WAS THIS FIGURE REACHED?) Experts will dispute the precise numbers. But few would dispute the magnitude. This is not a price that a civilized nation should permit itself to pay.

II. Today's Urgent Priority: a Comprehensive Attack on Smoking

The costs of inaction make the case for action. The question is what kind of action. Experience yields two major conclusions.

The first is that the single most effective way to reduce smoking is to stop it when it starts: in adolescence. Nine out of ten smokers start when they are in their teens. And the record shows that once they start smoking, they are unlikely to stop.

Each day, 3000 young people start smoking. Fully one third of them will have their lives cut short by it, because it causes an addiction that is very hard to shake later on. Nearly half of teen daily smokers think they will not be smoking five years later. Yet only one fifth actually manage to quit. One half of teen smokers try to quit and fail; and by age 18, two-thirds have already regretted starting. The regret is understandable: nearly half of adult smokers try to quit every year, but only about 2.5 percent succeed.

The second lesson guiding our approach is that preventing youth smoking demands a comprehensive approach, an approach that makes tobacco companies part of the solution. The fact is that the piecemeal approaches of past years have not worked. Youth smoking has continued to grow through the 1990s and shows no sign of declining. What is required is a

coordinated, comprehensive approach based around the five core components that the President outlined last fall.

1. A combination of annual payments and penalties on the tobacco industry designed to achieve targeted reductions in teen smoking by raising the price of a pack of cigarettes by up to \$1.50 over 10 years.

A significant price increase is integral to any comprehensive plan to reduce youth smoking because, quite simply, the best way to combat youth smoking is to raise the price. Young people are much more price sensitive than adult smokers, both because they have fewer financial resources, and because they are not (yet) as addicted. Consensus estimates suggest that every 10 percent increase in the price of a pack of cigarettes leads to 700,000 fewer teenagers becoming smokers -- and more than 200,000 premature deaths avoided. Yet for all that, the federal tax on cigarettes has barely kept pace with inflation in the last three decades. Federal and state taxes combined are at the same level now as when the first surgeon general's report on smoking was released in 1964 -- and that only because of the historic increase in the federal tax enacted in last summer's budget agreement.

2. Full authority for the Food and Drug Administration to regulate tobacco products.

This is essential because the FDA needs a comprehensive set of tools to craft appropriate restrictions on access to and the advertising of tobacco products and to respond to changing circumstances in supporting parents' efforts to protect would-be teen smokers. The Administration has worked to give the FDA the authority it needs to act effectively against teen smoking, but its use of that authority has been hampered by a number of recent court actions. If we are to win the battle against youth smoking we must lift this cloud of uncertainty and reaffirm the FDA's rightful position in the front line.

3. Real changes in the way the tobacco industry does business, including an end to marketing and promotion to children.

Real restrictions on youth access and marketing will likewise be integral to a successful solution. The 1994 Surgeon General's Report concluded that cigarette advertising significantly increased young people's risk of smoking by changing their perception of the extent, image, and function of smoking in our society. Consider: for years now the dangers of smoking have been known and widely publicized, yet nine out of ten six year olds recognize Joe Camel as instantly as they do Mickey Mouse. That matters, because teens are much more likely than adults to buy the three most heavily advertised brands of cigarettes. As the Surgeon General stated recently, to have an impact on teen smoking "we need to level the playing field". We need to let the efforts of parents, schools and role models take hold without the "pervasive backdrop of pro-tobacco imagery and promotional messages."

4. Progress toward other public health goals, including biomedical and cancer research, a

reduction of second hand smoke, promotion of smoking cessation programs, and strengthening of international efforts to control tobacco. ()*

We need to marshal the combined resources and expertise at the national, state and community level to expand our knowledge of the causes and effects of smoking and use what we already know to better effect. Across the country, experiments in second hand smoke reduction and smoking cessation programs have been yielding important lessons on what works and what doesn't. But we need to find out more. And we need to make sure that those lessons are being applied nationally and globally. As many of you may know, on current trends by 2025 tobacco will be the leading global cause of death and preventable illness -- with an estimated 70 percent of those deaths occurring in developing countries. A problem of this scale demands a global approach -- of the kind that was launched to eradicate smallpox and polio.

5. Protection for tobacco farmers and their communities

Finally, a comprehensive approach to reducing youth smoking can and must take account of the legitimate concerns of the 124,000 farmers who are involved in tobacco production and the families who depend on them. A commitment to compensating these communities for a new nationwide approach to tobacco is integral to our search for a comprehensive solution.

We believe that all five of these components are critical to a solution because they are all mutually reinforcing: the effectiveness of any one is substantially increased by the presence of the others. Studies in Massachusetts and California suggest that while increasing the price of cigarettes is one of the most cost-effective short-term strategies for cutting tobacco consumption, the capacity to sustain that reduction is greatly enhanced when the price rise comes with a comprehensive anti-smoking campaign.

Equally, the more we are able to coordinate our efforts across state and county lines, the more effective such an approach will be. In the absence of federal actions, some states will continue to take their own measures to reduce smoking, but they will not have the impact of an integrated federal plan of attack, and among other things a patchwork approach is unlikely to provide much protection for tobacco farmers and their communities.

III. The Prize: Potential Human and Economic Benefits of a Comprehensive Approach

The Chinese language, we are always told, sees an opportunity in every crisis. So must we. The flip-side of the enormous economic cost of smoking is an opportunity to generate equally large benefits for our society and our economy by reducing it.

Our estimates suggest that a comprehensive approach to combating smoking -- combining the price increase anticipated in the President's budget and tighter restrictions on youth access and marketing -- would lead to dramatic reductions in youth smoking with substantial positive knock-ons for our economy. Together these would reduce teenage smoking by 40 percent. They

would:

- reduce the number of youths smoking each year by as many as 1.9 million by 2003;
- reduce the cumulative number of youths who smoke between now and 2003 by 3 million;
- and, as a result, prevent roughly 1 million premature deaths.

Lowering the number of people who start smoking by more than 40 percent could ultimately save the United States economy between \$20-30 billion per year (**): as much as our government spent last year on natural resources and the environment, or community and regional development, or agriculture, or all of our justice programs and policies. (BETTER COMPARISONS??? -- number of policemen? doctors?)

While our main purpose is furthering the public health, we should not forget (**should we forget? **) that comprehensive legislation would give rise to substantial additional public resources at a time when as a nation we facing critical needs -- both in the health care sector and other vital areas. Rarely have we faced such a ripe opportunity to invest so productively in our future as we do today in this chance to combat comprehensively the threat of tobacco.

IV. An Historic Opportunity

The mix of historic achievement -- and opportunity -- that I described earlier with regard to the American economy is nowhere more apparent than in our health sector. Here at GW and around the country, we are making enormous strides to solve once seemingly unsolvable medical problems, and we are doing this while effectively restraining the underlying growth in medical care costs which once threatened the stability of the system. But here of all places we can no longer turn a blind eye to the one area where the solution is so straightforward -- reducing smoking.

(As Vice President Gore noted earlier this week: nearly as many Americans die each day of tobacco-related illnesses as were lost with the sinking of the Titanic.) Every day that we do not take action means that another 3,000 young people will become regular smokers. Just in the time that I have been speaking to you, 20(*) children have started smoking, and 7 of them will die prematurely as a result. We cannot afford to delay one child longer.

By passing comprehensive legislation that meets the targets laid out in our budget, in five years' time around 40 percent fewer American children will be smokers; in 10 years time, the number will have been halved. And \$60 billion that our economy would have lost with those lives can instead be used to add to their lives and to the lives of other Americans. The stakes are high. The right path is clear.

Tobacco - settlement - 002
Treasury youth smoking
report



DEPARTMENT OF THE TREASURY
WASHINGTON

February 11, 1997

Memo To: Secretary Rubin
Deputy Secretary Summers
Bruce Reed
Jim O'Hara

From: Jon Gruber JG

Attached please find a draft of the talking points and results on youth smoking reductions from our budget proposal. Please contact me directly with comments at 622-0563.

DRAFT**Reducing Youth Smoking**

Over 3 million teenagers smoke cigarettes on a daily basis in the United States. An additional 2 million smoke on a casual basis and are at risk of becoming chronic daily users.

- The most recent data show that 22 percent of high school seniors were daily smokers; 34 percent smoked on a more casual basis. In addition, youth smoking has been on an upward trend.

Reducing youth smoking is the best way to reduce the overall incidence of smoking in the future; 90 percent of adult daily smokers first begin smoking cigarettes as teenagers.

The most reliable method for reducing teen smoking is to increase the price of cigarettes.

- A large number of rigorous economic studies have shown that teen smoking is responsive to changes in the price of cigarettes. A consensus view is that the number of teen smokers declines by about 7 percent for a 10 percent increase in the real price of cigarettes.

Additional efforts beyond price changes can help to reduce youth smoking -- such as eliminating vending machines, enforcing restrictions on sales to youths, eliminating advertising aimed at youths, and anti-smoking counter-advertising.

- Several studies have shown that fully-enforced sales restrictions have successfully led to reductions in youth smoking, particularly for younger teens.
 - A 1991 study in the *Journal of the American Medical Association* reported a 69 percent decline in daily use by seventh and eighth graders in Woodridge, Illinois following legislation and enforcement of restrictions on cigarette sales to minors.
 - A 1992 study in *Tobacco Control* reported a 44 percent decline in junior high school students' smoking in Leominster, Massachusetts as a result of strictly enforced sales restrictions.

Hence, a coordinated effort of moderate price increases and fully-enforced access and advertising restrictions would be more likely to produce a significant and sustained decline in youth smoking than either policy by itself.

- The Administration's Budget proposal calls for an increase in the real price of cigarettes of \$1.10 per pack. Coupled with the sales and advertising restrictions, that price increase

DRAFT

would lead to a 40 to 50 percent reduction in teen smoking, keeping 1.4 to 1.9 million teens from smoking in the year 2003.¹

- By 2003, the cumulative number of teens kept from smoking would be in the range of about 2.4 to 3.3 million teens.
- The direct result of these policies over the next five years is that as many as 1.1 million of today's young people will be spared from premature deaths resulting from smoking-related diseases.

¹This range accounts for both price and non-price effects. The non-price effects lead to a reduction of 10 to 30 percent in youth smoking, with the response to price increases applied to the resulting lower number of users.

DRAFT**Projected Teen Smoking Reductions by Year -- President's Budget Proposals**

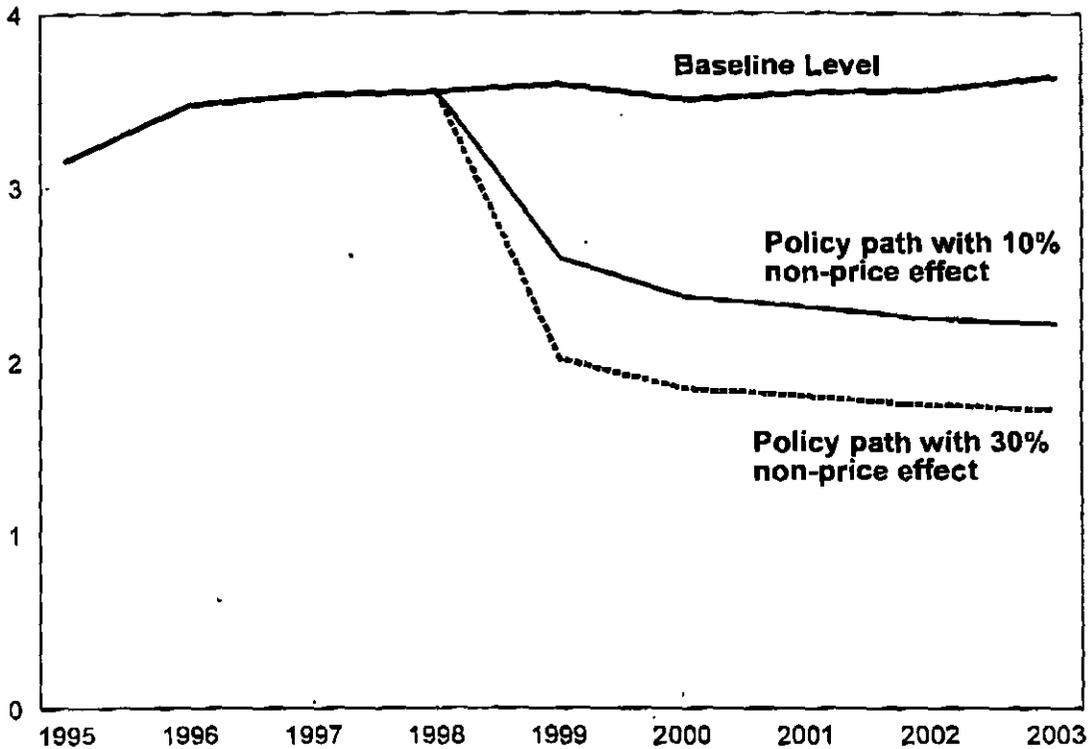
Year	Real Price Increase	Baseline Number of Teen Smokers	Decline in Teen Smoking (percent)	Decline in Teen Smoking (number)
1999	\$0.62	3.59 million	-28 % to -44 %	-1.0 to -1.6 million
2000	\$0.80	3.50 million	-32 % to -47 %	-1.1 to -1.7 million
2001	\$0.90	3.54 million	-35 % to -49 %	-1.2 to -1.7 million
2002	\$1.00	3.55 million	-37 % to -51 %	-1.3 to -1.8 million
2003	\$1.10	3.63 million	-39 % to -53 %	-1.4 to -1.9 million

Note: The declines in teen smoking shown include the effects of non-price aspects such as fully-enforced retail sale restrictions, marketing and advertising restrictions, and counter-advertising.

DRAFT

Daily Teenage Smokers -- Baseline and Policy Paths

Millions of teenagers



3rd m - 1m

2070

cut for comp.

5 prices

w/ respect to bid - price, penalties, accessibility

need all-cit accept piecement.

Thru. anal.

Timeline

5 yr 7 yr 10 yr

June 20 settlement

30% 50% 60%

(more than half over 10)

also FDA rule

But 2 bill barrels: FDA = current

Settlement = 10 yr average (lower than current)

FDA as adjusted to 42% 58%

10 yr barrel =

Current	2 yr	4 yr	6 yr	9 yr
(current barrel)	20%	35%	50%	67%

Our prediction 39-46% over 5 (commutative)

penalties after 5 -- if necessary --

will drive 90% up - kind of

insurance system.

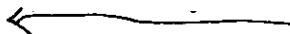
4 bullets

price + non price effects

10-20%

1.10

→ 32%



10/7

but responsiveness declines

Tom Gruber 202-622-0563
(Campus)

What makes estimates conservative?

- on non-price - supply studies suggest much greater - but in high + small samples
- only daily smokers

price stuff - not constant

Relationship of price + non-price effects?

model
1st apply non-p;
then p.
(depends on
order)

how much attributable to each?

roughly $\frac{2}{3}$ is price (a bit less)

any synergies?

non-price - bet $\frac{1}{3} + \frac{1}{2}$

any double-counting here?

10% " 20%

100 kids $\xrightarrow{\text{non-p}}$ 80 [90] $\xrightarrow{32\% \text{ value}}$ 55

there are interactions -
we leave not double
counted - did this
linearly.

(but really depends on order)

use at a third

↓
assump
w/ no
substit

What level of declining responsiveness do you calculate?

need to put all together -

(if one piece is missing -

(used everything)

10% → 7%
Price ↑ - 50% → 30% decrease in consumption
(1.10)

↳ (responsiveness gets a little less w/
each 1% increase)

Price increase of 1.10 gets 32% reduction

Adults - price only

1.10.7 → 15%

(almost 7 million adults in 2003)

Q & A's on Youth Smoking Effects

Q: Your estimates suggest an enormous impact of the budget proposal on reducing youth smoking. Given the unpredictability of adolescent behaviors such as this, are these reasonable?

A: Our estimates are indeed reasonable, and reflect two considerations. First, youth smoking has been repeatedly demonstrated to be very sensitive to price. The consensus from the academic literature is that there is a 7 percent reduction in teen smoking for every 10 percent increase in the price. Thus, the sizable price increases contemplated by the President's budget proposal can by themselves have enormous effects on teen smoking. The best thing that we can do to combat youth smoking in America is to raise the price of cigarettes, plain and simple.

Second, these price increases are taking place in the context of substantial non-price actions to reduce youth smoking. The President's principles on tobacco legislation call for public education, counter advertising, and expanded efforts to restrict access and limit appeal. We support comprehensive legislation that includes sales and marketing restrictions which add to the effects of cigarette price increases. In our analysis, we estimate that such a comprehensive approach could lower underage teen smoking by an additional 10-20 percent.

Q: You refer to substantial price increases, yet your budget calls for lump sum industry payments. How will these payments reduce youth smoking?

A: Our budget calls for payments from the tobacco industry of \$65.5 billion over five years. We expect that these increased payments will be reflected in the price of cigarettes, lowering youth smoking dramatically.

Q: What do you assume the resulting increase in prices will be?

A: The increase in prices from these payments will reflect a number of factors, such as the precise extent to which the tobacco companies are able to pass along these payments in the form of higher prices. Our assumption for this analytical exercise is that our proposal will lead to a real increase in the price of cigarettes of \$1.10 per pack by 2003. This estimate is calculated simply as the total amount of payments, divided by the projected number of cigarettes sold at that higher-price level. But this is not a formal budget estimate of the form that would be done for excise taxation, since we are not proposing a tax but rather a series of annual industry payments.

Q: On what evidence are your estimates of non-price effects based?

A: These estimates are based on both a careful review of the literature on the effects of sales and marketing restrictions on youth smoking, and conversations with a number of experts in this area. This range of estimates reflects the limited evidence in this area.

There is some evidence that highly coordinated and organized restrictions on sales to youth can have enormous impacts, even in the absence of price signals. For example, a 1991 study in the *Journal of the American Medical Association* reported a 69 percent decline in daily use by seventh and eighth graders in Woodridge, Illinois following legislation and enforcement of restrictions on cigarette sales to minors. Similarly, a 1992 study in *Tobacco Control* reported a 44 percent decline in junior high school students' smoking in Leominster, Massachusetts as a result of strictly enforced sales restrictions.

While these results are striking, they are based on small samples and apply only to very young smokers (junior high school students). Another similar study, focusing on Massachusetts high school students, found no effects of youth sales restrictions. But this study also featured a lower compliance rate by retailers, highlighting the importance of a well-enforced and comprehensive approach.

A recent summary study simulates the effect of sales restrictions to youths and estimates an 18% reduction in youth smoking. And our conversations with experts in this area suggested that their best estimates were in the range of a 10-20% non-price effect. This is the range that we use for our estimates.

Q: Given the striking results for the cases of Woodridge and Leominster, are you saying that you don't think that the marketing and access restrictions called for by the President will be very effective?

A: No. We are encouraged by these results, which suggest an important role for a comprehensive approach to the problem of teen smoking. But these findings reflect a best case scenario of a comprehensive and well-enforced sequence of access restrictions. We hope that such a best case will arise from any forthcoming tobacco legislation, and we urge the Congress to work towards this goal.

But we are somewhat more conservative in our estimates for two reasons. First, these studies just focused on the youngest teens, junior high school students, and their results may not apply more broadly to the larger population of underage teens (including high school students). Since other evidence presents more conservative estimates, we have decided to be more conservative ourselves. Second, these studies did not reflect any price change. Some of the youths who were induced to stop smoking through these non-price mechanisms will now stop smoking because prices are higher. If we used the full estimates from these other examples, we would be in a sense "double-counting" the reduction in youth smoking.

Q: Why do you have a range of estimated impacts on youth smoking, as opposed to a precise figure?

A: Our estimates represent both a careful review of the literature on the effects of sales and marketing restrictions on youth smoking, and conversations with a number of experts in this area. But there are relatively few studies of the impact of sales and marketing

restrictions on which to base our analysis. Therefore, we feel that it is appropriate to allow for some range in the estimates. This range highlights the importance of a significant price increase, such as that contemplated by the President's budget, as part of any comprehensive approach to combating teen smoking.

Q: Your proposal represent an increase in prices that is far beyond any change that we have seen in the past. Is it appropriate in this case to apply previous estimates of price responsiveness?

A: It is possible that the responsiveness of smoking to price increases may fall as the price rises. This is because the remaining teen smokers at high price levels have revealed themselves to not be very price sensitive, so small additional changes in price will have a more limited impact. Our approach to estimating the impact of price on smoking allows for a declining responsiveness as the price increases.

**PRESIDENT CLINTON RENEWS CALL FOR COMPREHENSIVE TOBACCO
LEGISLATION THAT REDUCES YOUTH SMOKING
February 13, 1998**

Today, President Clinton released a new Treasury Department analysis which concludes that the comprehensive tobacco legislation he has called on Congress to pass would reduce underage teen smoking by up to 46 percent in 2003, keeping up to 1.7 million teens from smoking in that year and up to 2.8 million teens from smoking over the next five years. Comprehensive legislation would make a significant reduction in our most devastating and preventable health problem. Every day, 3,000 young people start smoking and 1,000 of them will die prematurely from a tobacco-related disease. Over three million teenagers -- more than 22 percent of high school students -- smoke cigarettes on a daily basis. Another 2 million smoke on a casual basis and are at risk of becoming chronic daily users.

The President Announced the Effects of His Tobacco Proposal on Youth Smoking. The Treasury Department's study is based on conservative estimates from well-respected analytical models. It concludes that the Administration's proposal -- a price increase of \$1.10 per pack over five years, coupled with proposed sales and advertising restrictions -- would:

- Reduce underage teen smoking by 39 to 46 percent in 2003;
- Keep 1.4 to 1.7 million underage teens from smoking in 2003;
- Keep 2.4 to 2.8 million underage teens from smoking over the next five years; and
- Spare almost 1 million of today's young people from premature deaths resulting from smoking-related diseases.

The President Reaffirmed His Commitment To The Five Key Principles That Must Be At The Heart Of Any National Tobacco Legislation.

- A comprehensive plan to reduce youth smoking by raising the price of a pack of cigarettes by up to \$1.50 over ten years through a combination of annual payments and tough penalties on the tobacco industry;
- Full authority of the Food and Drug Administration to regulate tobacco products;
- Changes in how the tobacco industry does business, including an end to marketing and promotion to children;
- Progress towards other public goals, including biomedical and cancer research, a reduction of secondhand smoke, promotion of cessation programs, and other urgent priorities.
- Protection for tobacco farmers and their communities.

25 m. - 5 yr ↑s
175- NIH
86- non-NIH

Buys ↑ over 5 yrs in all
~~these~~ programs.

21ST CENTURY RESEARCH FUND FOR AMERICA

The President also renewed his call for a 21st Century Research Fund for America, which makes an unprecedented multi-year investment in some of the most promising biomedical and scientific research. Highlights from the Trust Fund include:

- **An Historic Investment in Medical Research.** To build on progress in biomedical research, the Fund contains a historic up-front investment in biomedical research — a \$1.15 billion increase in FY 1999 — at the National Institutes of Health (NIH) and increased funding of nearly 50 percent over the next five years. Under the President's proposal, the NIH will devote over \$20 billion to biomedical research in 2003. This increases funding at all of the Institutes at NIH, including a 65 percent increase in cancer research funding. The Fund also includes \$25 million for a new Prevention Research Program at CDC to identify interventions that prevent diseases, and a \$25 million increase in research on quality and health outcomes at the Agency of Health Care Policy and Research (AHCPR), which will help bridge the gap between what scientists know and the health care Americans receive.
- **National Science Foundation.** The Fund also supports a \$344 million increase in NSF -- the largest increase ever -- bringing NSF spending to \$3.7 billion in FY 1999. This new funding will advance NSF's broad mission of promoting science and engineering research and education across all fields and disciplines.

National Aeronautics and Space Administration (NASA). The Fund makes a renewed commitment to essential NASA activities, including a \$2.1 billion increase for Space Science leading to a more robotic exploration of the solar system.

Department of Energy. The Fund provides \$2.7 billion for DoE's science research and nuclear fusion programs.

Department of Commerce. The Fund also provides \$851 million for the National Institutes of Standards and Technology (NIST) Advanced Technology Program and Oceanic and Atmospheric Research activities.

The President Stated His Desire To Work With Democrats and Republicans to Enact Comprehensive Tobacco Legislation This Year. The President applauded Senator Conrad for introducing comprehensive tobacco legislation that meets the Administration's five goals. The President will support all bills that meet his principles, whether introduced by Democrats or Republicans. He looks forward to working with as many Members as possible on the issues involved in comprehensive legislation.

A Comprehensive Approach to Reducing Youth Smoking Department of Treasury Analysis

Over 3 million teenagers smoke cigarettes on a daily basis in the United States. An additional 2 million smoke on a less than daily basis, but are at risk of becoming chronic daily users.

- The most recent data show that 25 percent of high school seniors were daily smokers; another 12 percent smoked on a less than daily basis. In addition, underage youth smoking has been on an upward trend.

Reducing youth smoking is the best way to reduce the overall incidence of smoking in the future; 90 percent of adult daily smokers first begin smoking cigarettes as teenagers.

The most reliable method for reducing teen smoking is to increase the price of cigarettes.

- A large number of rigorous economic studies have shown that teen smoking is responsive to changes in the price of cigarettes. A consensus view is that the number of teen smokers declines by about 7 percent for a 10 percent increase in the real price of cigarettes.¹
 - This relationship represents the response for a very small change in prices. Our model allows the responsiveness to decline as prices rise, since the smokers that remain at high prices have revealed that they are less responsive to price signals.

Additional efforts beyond price changes can help to reduce youth smoking -- such as eliminating vending machines, enforcing restrictions on sales to youths, eliminating advertising aimed at youths, and anti-smoking counter-advertising .

- Studies have shown that fully-enforced sales restrictions have successfully led to reductions in youth smoking, particularly for younger teens.
 - A 1991 study in the *Journal of the American Medical Association* reported a 69 percent decline in daily use by seventh and eighth graders in Woodridge, Illinois following legislation and enforcement of restrictions on cigarette sales to minors.²
 - A 1992 study in *Tobacco Control* reported a 44 percent decline in junior high school students' smoking in Leominster, Massachusetts as a result of strictly enforced sales restrictions.³

¹Chaloupka, F., and M. Grossman, "Price, Tobacco Control Policies, and Youth Smoking," NBER Working Paper #5740, 1996.

²Jason, L. A., P. Ji, M. Anes, S. Birkhead, "Active Enforcement of Cigarette Control Laws in the Prevention of Cigarette Sales to Minors," *Journal of the American Medical Association*, Vol. 266, no. 22, December 11, 1991, pp. 3159-3161.

³DiFranza, J.R., R.R. Carlson, R.E. Caisse, "Reducing Youth Access to Tobacco," *Tobacco Control*, 1992.

- A recent working paper comparing the effectiveness of state and local access restrictions estimates that comprehensive access restrictions for youth can lower youth smoking by 18%.⁴
- A number of experts in this area suggest that a conservative assumption for the impact of comprehensive sales and marketing restrictions is a 10-20% reduction in youth smoking. Based on their opinion and the existing literature, we use this range for our estimates.

Hence, a coordinated effort of sizeable price increases and fully-enforced access and advertising restrictions would be more likely to produce a significant and sustained decline in youth smoking than either policy by itself.

- The Administration's Budget proposal calls for a significant increase in the real price of cigarettes over the next five years. Coupled with comprehensive sales and advertising restrictions, that price increase will lead to a 39 to 46 percent reduction in underage teen smoking in five years.
- In 2003 alone, the number of young people kept from smoking would be in the range of about 1.4 to 1.7 million teens.
- Over the next five years, the cumulative number of young people kept from smoking would be in the range of about 2.4 to 2.8 million teens.
- The direct result of these policies over the next five years is that almost 1 million of today's young people will be spared from premature deaths resulting from smoking-related diseases.

These estimates illustrate the powerful impact of a combination of price increases and access/marketing restrictions on youth smoking. But there remains some uncertainty in our estimates of the impact of these policies.

- That is why the President has also called for youth smoking penalties on the tobacco industry if they do not meet targeted reductions in youth smoking. These penalties will help to ensure that we meet our youth targets.

These estimates are based on daily smoking. Because underage teen smoking on less than a daily basis frequently leads to daily smoking and the subsequent risk of death and disease, the figures understate the total benefits of these policies.

⁴Chalupka, F., and R.L. Pacula, "Limiting Youth Access to Tobacco: The Early Impact of the Sinar Amendment on Youth Smoking," Working Paper, University of Illinois-Chicago, January, 1998.

A Comprehensive Approach to Reducing Youth Smoking

The Administration's Budget proposal calls for substantial real increases in the price of cigarettes over the next five years. Coupled with effective sales and advertising restrictions, this proposal will lead to:

- A *39 to 46 percent* reduction in underage teen smoking in 2003
- *1.4 to 1.7 million* fewer underage teens smoking in 2003
- Over the next five years, *2.4 to 2.8 million* young people will have been kept from smoking
- Over the next five years, *almost 1 million* of today's young people will be spared from premature deaths resulting from smoking-related diseases.