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Bad Idea: Tobacco Tax to Fund Health Care

By Marc Kilmer

While the popularity of Congress may be at record lows, you have to give our elected officials credit for being clever. The idea being proposed by some Senators to tax an unpopular group – tobacco users – to pay for a popular concept – government health insurance for children – will certainly appeal to many. But as with many clever Congressional proposals, the reality of this plan is much less appealing than its presentation.

The State Children's Health Insurance Program (SCHIP) is up for reauthorization in Congress this year. This program pays for different children's healthcare programs run by state governments. In Florida, it pays for part of the KidCare program. KidCare is a separate program from Medicaid, but the two programs have similar goals.

One of the problems with the federal reauthorization of SCHIP is that money is tight. Congress and President Bush have been on a spending spree for the past few years, and the new "pay-go" budget rules require that any new spending be offset by cuts in other areas or an increase in taxes.

Compounding the problem with SCHIP, some states have been using this federal money not only to pay for the health care of children (as the program intended) but also for adults. That increases the cost of the program and has

led to situations where states have run out of money for their state SCHIP services partway through the year.

Faced with a problem of how to pay for increasing SCHIP spending, some in Congress want to hit the one group of taxpayers most unpopular with the public: tobacco users. After all, these folks are a minority of the population, and we all know that their tobacco use costs taxpayers millions, right? So why not tax them to pay for this popular program?

While it may be unpopular to defend lower taxes for tobacco users, it is an issue of fairness and fiscal responsibility. It is poor tax policy to target a certain group in order to deliver benefits used by a wider group of people. The only legitimate reason to tax a particular group is to offset any harm that group causes to society. And while many think that smokers impose a large cost on the government, studies have found that the cost of smokers to society amounts to roughly 32 cents a pack. Florida taxes cigarettes at 34 cents a pack, and the federal government taxes them at 39 cents a pack, so smokers are already paying more than what they cost.

Of course, there is also a practical reason not to make an expanding healthcare program dependent on such a tax. Tobacco tax revenue is a declining

revenue source. As fewer people smoke, taxes from cigarettes and other tobacco products decrease. Government healthcare spending, on the other hand, increases almost every year. In Florida, for instance, Medicaid spending went up an average of 14 percent every year earlier in this decade.

If you try to pay for an ever-increasing government program with a continually-decreasing tax base, the revenue won't be there. That means there will be a need for other tax sources to pay for it. So when you hear those pushing this tobacco tax increase as the "solution" to SCHIP funding, skepticism is warranted.

Those following this debate should also be skeptical of efforts to expand government health insurance programs such as Medicaid and SCHIP. In Florida, some groups want a special session of the Legislature to consider expanding KidCare. In reality, these programs push people off private insurance and encourage people to sign up for government-funded health care often criticized as substandard or inconsistent.

Instead of looking to make more people eligible for government health

care, both federal and state officials should be looking to expand private insurance coverage. Unfortunately, the debate at both the federal and state level is not about reforming these programs, but about expanding them.

If SCHIP is to be reauthorized (and it almost certainly will be), this flawed program should not be paid for by a tobacco tax increase. If this program is as popular as it seems, then *all* taxpayers – not just smokers – should bear its burden.

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