

Fiscal Fact

Cigarettes and Preschoolers Don't Go Together

By

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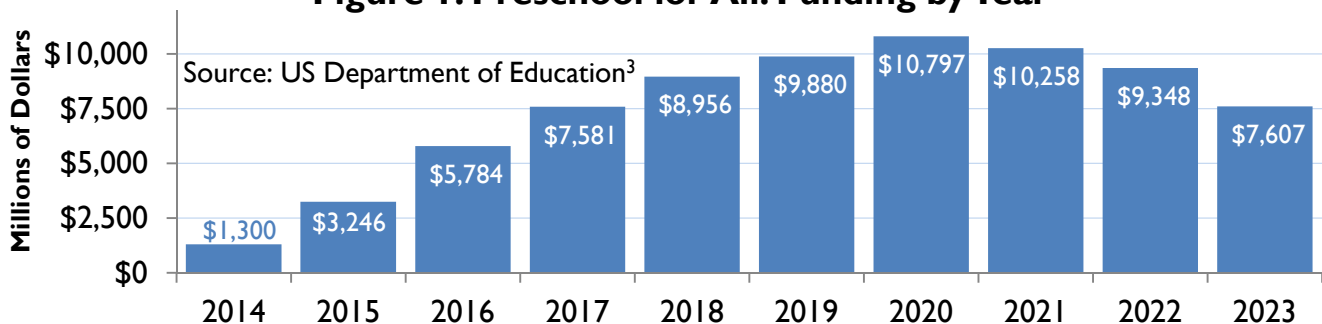
During his 2013 State of the Union address, President Obama proposed a plan to implement a universal preschool program. Although the proposal has not been prominently featured in the news since the speech, Education Secretary Arne Duncan has been pressing Republican legislators to support the president's plan, which would increase cigarette taxes to \$1.95 a pack to finance universal preschool.¹

The administration's goal is to "ensure that more children and families have access to high-quality early learning and development programs."² They point out that the United States is 28th in the world in enrollment rates for four-year-olds and 25th in public spending on early education as a percentage of GDP. While these statistics demonstrate that there is room for improvement, the administration's preferred method of financing the program is deeply flawed in the long run, as states will be forced to shoulder an increasing share of the costs of the program as time goes on, and cigarette tax revenue is diminishing over time as people turn away from smoking.

Putting the States on the Hook

To send every four-year-old to preschool, the administration wants to dedicate \$75 billion over ten years in direct spending plus an additional \$750 million in discretionary grants to states to help implement the plan. Total federal spending for the program in FY 2014 would be \$1.3 billion, but it would grow to nearly \$11 billion by FY 2020. (See Figure 1.)

Figure 1. Preschool for All: Funding by Year



¹ Chris Burritt & Jonathan Salant, *Obama Tobacco-Tax for Pre-Kindergarten Draws Opposition*, BLOOMBERG, Apr. 6, 2013, <http://www.bloomberg.com/news/2013-04-05/obama-tobacco-tax-for-pre-kindergarten-draws-opposition.html>.

² U.S. Department of Education & U.S. Department of Health and Human Services, *Federal Investments in Early Learning and Development*, <http://www2.ed.gov/documents/budget/presentation-investments-early-learning.ppt>.

Over time, states would be on the hook for an increasingly large share of the spending. In the first two years of the program, states would spend just 10 cents for every dollar the federal government provides. But by year six, the states would pay 50 cents for every dollar the federal government provides. By year ten, states would pay three dollars for every dollar the federal government provides. If, however, states successfully provide education to 50 percent or more of children from low- and moderate-income families, then the states would receive a more generous federal match.⁴

This funding mechanism whereby state legislators can vote for a government services increase today and not pay fully for the program until several years from now creates public policy problems, as legislators may be out of office before the full bill of the program comes due.

Many states already face dire fiscal outlooks. Moody's Investor Services, for example, recently downgraded Illinois's state debt from an A2 to an A3 and then offered a negative outlook.⁵ In 2011, Standard & Poor's downgraded New Jersey's credit rating from AA to AA-.⁶ The administration's plan expects these two states to spend money that they likely do not have. According to the president's own estimates, New Jersey will have to spend \$5.1 million in the first year,⁷ and Illinois will have to spend \$10.2 million in the first year.⁸ Funding universal preschool would only exacerbate the fiscal problems that many states face. If a state is unable to pay for universal preschool, the federal government would face an undesirable decision: either halt a government program with a sympathetic four-year-old constituency or pay for the state's share of the cost.

Cigarette Tax Revenue is Unstable

The even bigger problem is that the administration plans on paying for universal preschool by increasing the federal cigarette excise tax from \$1.0066 to \$1.95 a pack. While it might be politically expedient to isolate a small unpopular group (smokers) to pay for a service to a popular group (preschoolers), universal education would in fact be universal—and therefore should be paid for with broad based (universal) taxes.

But even if the principle of broad-based taxation is not persuasive, funding pre-kindergarten education with tobacco tax revenue will not work in the long run, as tobacco use has steadily declined since 1963.⁹ As

³ *Id.* at slide 13.

⁴ US Department of Education, *School Readiness: Fiscal Year 2014 Request*, C-10 & C-11, <http://www2.ed.gov/about/overview/budget/budget14/justifications/c-schoolreadiness.pdf>. See also Brad Plumer, *Funding preschool with a cigarette tax is unsustainable*, WASHINGTON POST WONKBLOG, Apr. 11, 2013, <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/04/11/funding-preschool-with-a-tobacco-tax-is-unsustainable/>; David Brunori, *Smoke 'Em if You Got 'Em*, TAX NOTES TODAY, Apr. 15, 2013 [subscription required]; Lori Sanders, *Conservatives need a 'head start' on income inequality*, R STREET INSTITUTE BLOG, Apr. 18, 2013, <http://www.rstreet.org/2013/04/18/conservatives-need-a-head-start-on-income-inequality/>.

⁵ *Lack of pension fix pushes Illinois's credit rating lower*, REUTERS, June 6, 2013, <http://www.reuters.com/article/2013/06/06/us-usa-illinois-moodys-idUSBRE95512O20130606>.

⁶ Tami Luhby, *S&P downgrades N.J. credit rating*, CNN MONEY, Feb. 9, 2011, http://money.cnn.com/2011/02/09/news/economy/New_Jersey_downgraded/index.htm.

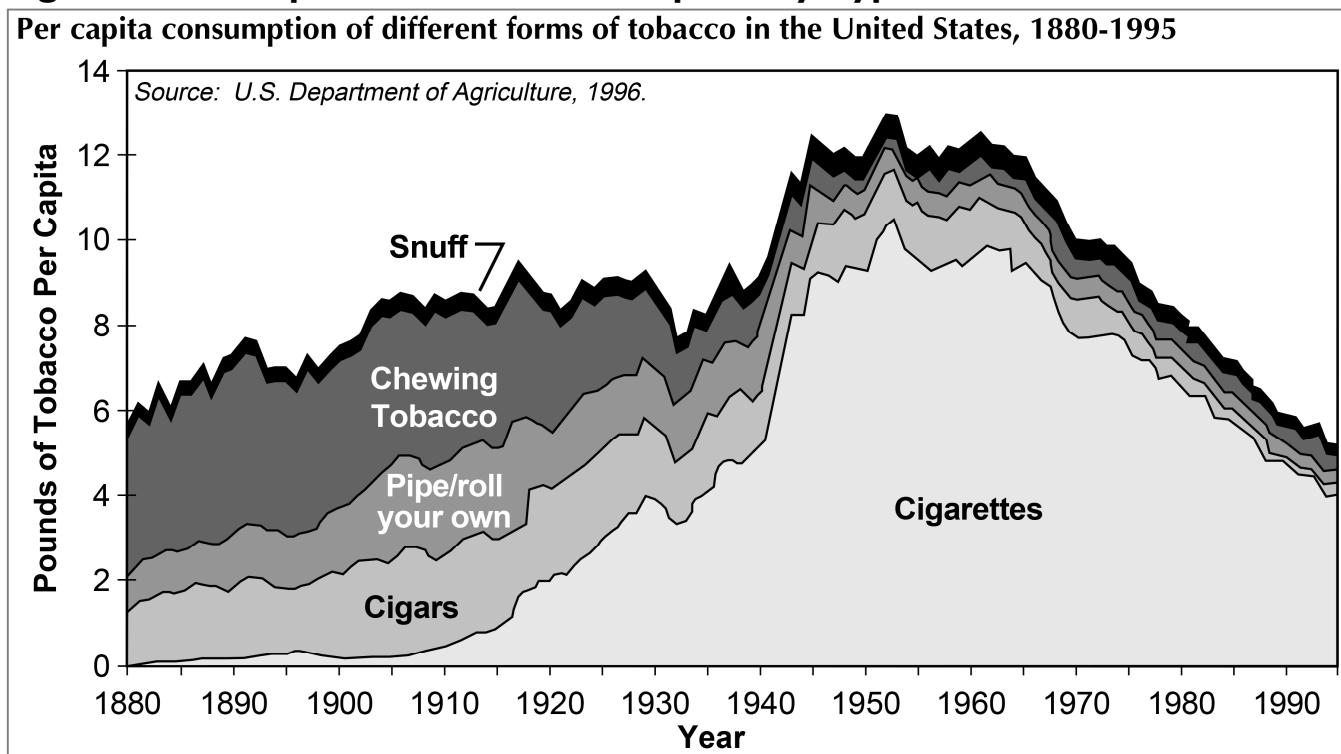
⁷ The White House, Office of the Press Secretary, *Increasing Access to High-Quality Early Childhood Education in New Jersey*, June 4, 2013, <http://www2.ed.gov/about/inits/ed/earlylearning/increasing-access/nj.pdf>.

⁸ The White House, Office of the Press Secretary, *Increasing Access to High-Quality Early Childhood Education in Illinois*, June 4, 2013, <http://www2.ed.gov/about/inits/ed/earlylearning/increasing-access/il.pdf>.

⁹ American Lung Association, *Trends in Tobacco Use*, July 2011, <http://www.lung.org/finding-cures/our-research/trend-reports/Tobacco-Trend-Report.pdf>.

Figure 2 demonstrates, per capita consumption of tobacco surged in the mid-20th century, but has since declined year after year.

Figure 2: Per Capita Tobacco Consumption by Type



Source: David M. Burns et. al.¹⁰

Table 1, from the president’s FY 2014 Budget, shows revenue projections for increasing the tobacco tax and indexing it for inflation.

Table I: Revenue and Spending Expectations for Preschool for All
(billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Totals	
											2014-	2014-
											2018	2023
Additional Mandatory and Receipt Proposals												
Early Childhood Investments												
Support preschool for all	130	1,235	3,110	5,456	7,360	8,773	9,787	10,560	10,275	9,356	17,291	66,042
Extend and expand home visiting	...	150	250	625	900	1,150	1,450	1,900	2,075	2,225	1,925	10,725
Total, early childhood investments	130	1,385	3,360	6,081	8,260	9,923	11,237	12,460	12,350	11,581	19,216	76,767
Increase tobacco taxes and index for inflation	-7,725	-9,844	-9,264	-8,718	-8,205	-7,723	-7,268	-6,842	-6,440	-6,062	-43,756	-78,091

Source: President’s FY 2014 Budget¹¹

¹⁰ David M. Burns et. al, *Cigarette Smoking Behavior in the United States*, in SMOKING AND TOBACCO CONTROL MONOGRAPH NO. 8, http://cancercontrol.cancer.gov/brp/tcrb/monographs/8/m8_2.pdf.

¹¹ Office of Management and Budget, *Fiscal Year 2014 Budget of the U.S. Government*, at 202, <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/budget.pdf>.

In the first ten years, the tax will raise \$78.091 billion, which is enough to pay for the \$75 billion costs of the program. But the administration predicts that the revenue from the tax will decline towards the end of the ten year window. Revenue from the tax would peak in 2015 at \$9.844 billion, but by 2023, the revenue would fall to just over \$6 billion. The table also shows that the majority of the new revenue would come during the first five years of the program (2014-2018). Consider also that the President's own projections show spending on universal preschool approaching \$8 billion in 2023, even though projected revenues would be just over \$6 billion.

This is a recipe for increasingly large deficits, as the cigarette tax will fail to raise enough revenue beyond the first ten years. If states are unable to pay for their share of the universal preschool, it is also possible that the federal government will have to pick up an even bigger percentage of the cost.

Conclusion

If taxpayers choose to pursue universal preschool programs, we should be willing to pay for them with real, broad-based taxes. Failure to do so promotes a tax system that leans on a small portion of the population to pay a disproportionate share of government services.

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