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Kerr: The cigarette tax, health insurance and the economy

By ROBERT KERR
Guest Columnist

In 1923, South Carolina led the nation as one of only a handful of states to levy a tax on cigarettes. The tax was 3 cents a pack. Eighty-six years later, we've made it to 7 cents, while the national average is well over a dollar.

What does the rest of the nation know that we don't?

I believe it is what economists call opportunity cost. Simply put, the opportunity cost of something is what you give up to get it. We often measure the cost of something by its monetary price, while ignoring the unseen opportunity cost. But we can't know the true cost of a decision without this crucial information.

The opportunity cost associated with not taxing cigarettes includes more tobacco-related deaths, increased cost to the health-care system, lost savings realized by those who would have quit smoking and, of course, lost revenue to the state.

The cigarette tax is back on the agenda for the General Assembly this session. That's no surprise, since the majority of citizens and legislators agree on its benefits. However, the stumbling block is finding consensus on how to spend the proceeds. I would argue that the proceeds be applied to addressing the problem of the uninsured.

There is an emerging school of thought that we can't address our health-care problems until we resolve the current economic crisis. I believe that's wrong and that the economic crisis and health-care crisis are inextricably tied.

It is estimated that more than 600,000 South Carolinians are uninsured. The number is likely to grow as more people lose their jobs and as spiraling health-care costs force businesses to decide whether to shift costs to employees or even cover them at all. Private insurance coverage is moving further out of reach for many low-income South Carolinians, and Medicaid covers few non-disabled, working adults. Make more than 50 percent of the federal poverty level — roughly \$5,200 per year — and you are not eligible. This lack of access to coverage is bad for business, bad for the economy and bad for South Carolina and takes a heavy personal toll on people.

I believe we need to change our perspective and focus on the true economic value of health care. It has been well documented that the uninsured have poorer health and shorter life spans, which results in lost productivity. A recent study by the New America Foundation measured the effect of this lost productivity at more than \$3,500 per uninsured South Carolina resident. That's a \$2.6 billion hit to our state's economy for 2007 alone. This is the opportunity cost — what we give up by not doing something about the uninsured.

Another example of high opportunity cost is occurring right now with the Medicaid budget. As part of the state's overall budget balancing effort, the Department of Health and Human Services has had the unenviable and difficult task of determining what services to cut and which beneficiaries will lose coverage. No matter what the choice, the consequences will be multiplied, because the federal government covers roughly 70 percent of South Carolina's Medicaid cost. If \$100 million is cut, our state loses an additional \$230 million. By the time these losses move through our economy, their effect will have multiplied. A 2002 study by USC's Moore School of Business showed a \$212 million reduction to Medicaid would have resulted in the loss of 6,180 jobs and an additional \$150 million in income. Today, Medicaid may be cut by as much as \$450 million.

The economy and health care are clearly linked, and the argument that we can't afford reform just isn't accurate. A coalition of state business and health leaders recognizes this fact and has come together to search for answers to the problems of affordability and access. Last year, the Covering Carolina Collaborative proposed a multi-pronged approach that would be funded by an increase in the cigarette tax. At the plan's core is a public-private partnership that provides insurance premium assistance to small businesses and low-income individuals. I know that we may not all agree on the form of the solution, but I hope we can all agree that health-care reform will strengthen our economy.

Now more than ever, it is critical that we take action. Not just because the opportunity cost of doing nothing is too

high, but because the human cost of doing nothing is unthinkable.

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