

ECONOMIC IMPACT OF PROPOSAL
TO RAISE CIGARETTE PRICES
IN MILITARY COMMISSARIES

Prepared for

AMERICAN LOGISTICS ASSOCIATION

April 1986 .

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EXECUTIVE SUMMARY

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The following report assesses the economic impacts of the proposal to raise cigarette prices in U.S. military commissaries. The proposed amendment is analyzed and the impacts of the policy change are discussed. Consideration is given to the alleged social costs of smoking in the military and the need for government action. A section-by-section summary follows.

Section I: Introduction

Section II: Background Information on Military Commissaries and the Proposed Amendment

An overview of the justification for military commissaries is given along with a summary of current policies for pricing groceries and related products sold to military personnel. It is pointed out that the commissary benefit represents one of the most important elements in the military compensation package. The major provisions of the proposed amendment are reviewed and definitional problems and ambiguities are discussed.

Section III: The Impact on Individuals

There are certain inequities inherent in the proposed amendment. This section discusses the differential impacts that will arise if the new cigarette pricing policy is adopted. Evidence is presented that illustrates how the burden of higher cigarette prices will differ across military installations. Disproportionate impacts on enlisted personnel and minorities are also

discussed and supported by data detailing smoking customs by occupation and income.

Section IV: The Impact on the States

This section discusses the precedents involved in including state and local excise taxes in the price of cigarettes sold in commissaries. The effect on the contribution of cigarette sales to commissary overhead expenses is highlighted.

Section V: Do Military Personnel Smoke More than Civilians?

Evidence is presented showing that the incidence of smoking among military personnel is not substantially different from that in society at large. In addition, an excise tax on military sales would not lead to a large reduction in smoking. Such a policy would amount to an arbitrary pay cut for military personnel.

Section VI: Conclusion

This report has attempted to assess the economic effects if Congress mandates an artificial cigarette price increase in commissaries. The negligible benefits of the proposal have been detailed, as well as the inequities of the amendment.

The Congress must consider priorities in its deliberations on this issue. Given the importance of the commissary benefit to members of the armed forces and their families, such a policy is not worth the consequences.

I. INTRODUCTION

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The Congress is considering a recommendation by the Defense Subcommittee of the Senate Appropriations Committee to raise the price of cigarettes sold in military commissaries to the level prevailing in local civilian retail stores. The economic impacts of the proposed amendment have not been addressed in the debate, yet they have the potential for imposing significant costs on U.S. military personnel. Simply put, because the commissary benefit represents one of the most important elements in the military compensation package, any price increase translates into a pay cut.

The Congress must consider the economic and social implications of the proposed amendment, the costs and benefits expected to accrue to all affected parties, and the broad questions concerning the proper role of government and government regulation of individual behavior before reaching a final decision. A particularly important issue in this debate concerns the duty of Congress to maintain its existing commitments to military personnel. In addition to basic pay, allowances, and special and incentive pay, about 36 percent of the total compensation package is in the form of other entitled benefits including retirement, health care, and commissaries.¹ Such benefits are an important recruiting tool, and those who choose to serve in the armed forces do so with the expectation of receiving these various forms of compensation during their military careers and on into

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