

OPINION

Raising cigarette tax more harmful than helpful

By GREGG M. EDWARDS

The perverse consequences of New Jersey's addiction to the cigarette tax are in public view. According to a published report, Newark's Narcotics Enforcement Team arrested two men for selling untaxed cigarettes. That's right, untaxed cigarettes.

Law-abiding cigarette wholesalers and retailers may be comforted by the fact that street-corner vendors are being shut down. But surely, Newark's Narcotics Enforcement Team has better things to do than to prosecute the sellers of untaxed cigarettes.

New Jersey has the nation's second highest state cigarette tax. The architects of this high tax policy probably would excuse Newark's apparent squandering of precious police resources as an unintended consequence of the policy. It may be unintended, but it wasn't unexpected.

In 2004, while the last tax hike was debated, the Center for Policy Research of New Jersey warned that the primary beneficiaries of the tax increase would be out-of-state retailers, online cigarette sellers, criminals and teenage smokers. That's because New Jersey smokers—now faced with a \$5.95 average per pack price—would feel strong financial pressure to buy cheaper cigarettes.

Smokers who live close to Delaware, Pennsylvania or New York (excluding New York City) can buy cheaper cigarettes in those states. The savings can be significant; the average price of a pack bought in Delaware is almost \$2.50 less than New Jersey's. Those for whom traveling across the New Jersey border isn't practical can use the Internet to purchase less expensive cigarettes, although state tax officials are trying to recoup the taxes owed on those transactions.

Some smokers, however, don't have the means either to travel to other states or to possess the credit card necessary for an Internet purchase. These individuals tend to be low-income or young. This large and concentrated group of eager buyers has attracted cigarette suppliers. These suppliers are not the typical convenience store or neighborhood bodega, but rather individuals and street gangs that sell cigarettes stolen from legitimate retailers, purchased in low-cost states and resold here or manufactured by foreign companies and smuggled into the U.S.

New Jersey's cigarette tax has particularly insidious effects in urban areas. Like most taxes on consumption, the cigarette tax hits low-income individuals the hardest. Since urban areas house much of New Jersey's low-income population, the residents and retail businesses located in cities shoulder the burden of the tax's adverse economic impact.

Turning cigarettes into a precious commodity promotes criminal behavior in places already crime-plagued. It encourages the theft of cigarettes from local retailers. It provides gangs and organized crime with a new means to finance their operations.

While the Narcotics Enforcement Team's prosecution of two urban entrepreneurs may seem silly, the crime associated with cigarettes and the pressure that crime places on local law enforcement is no laughing matter.

Street-corner sellers aren't checking IDs to be sure their customers are old enough to smoke. The black market makes cigarettes more accessible to teenagers.

There is no reason to believe that cigarette-related crime is confined to New Jersey's cities. Commenting upon the April bust of a crime ring selling counterfeit cigarettes in

South Jersey, a State Police lieutenant said, "If you want to make money, it's (selling cigarettes) even easier than selling drugs."

The trade-off for these negative consequences supposedly is higher tax revenues to support state government services, but even that promise is questionable. The Corzine administration recently acknowledged that its proposed 35 cents-per-pack tax increase would yield only \$60 million, which is \$20 million less than its original projection. The Legislature's budget experts counter that the increase will be only \$50 million. Given that the 2004 increase—also 35 cents—produced only \$20 million in new revenues, even the Legislature's projection appears too rosy. That \$20 million doesn't seem worth the crime and economic dislocation caused by that tax increase.

Before enacting New Jersey's fourth cigarette tax hike in the last six years, Trenton lawmakers are obligated to consider the consequences of the previous increases. There is ample evidence to demonstrate that New Jersey's cigarette tax is driving smokers away from New Jersey retailers. Cigarette prices are prompting some smokers to quit the habit, but most of New Jersey's declining sales volume is attributable to cross-border and Internet sales. There also is growing evidence that government-imposed cigarette prices have created a new black market.

Politicians are quick to decry smoking, but they love to tax cigarettes. The political ease with which the cigarette tax can be raised, however, is no excuse for continuing a policy that is doing more damage than good.

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