in the core and supplier sectors combined, and over \$3 in compensation for every \$1 in the other two sectors. However, other analysts conclude that such ratios should not be used to assess longer term national economic impacts. because resources diverted from the production of tobacco would be reallocated to the production of other goods and services. "If the focus is longer term, involving a period of, say, more than two years, then the induced effect should not be included in the measure because money not spent in one industry would find another outlet with equal (undistinguishable) induced effects." 63 Furthermore, over the long term, regional impacts of the regulation would be similarly diffused.

6. State Tax Revenues

The proposed rule would decrease State tobacco tax revenues as fewer youths become addicted to tobacco products. These excise tax losses would increase as more of these youths become non-smoking adults. According to the Tobacco Institute, State cigarette excise taxes totaled \$6.2 billion for the year ending June 30, 1993.64 Since State excise taxes on other tobacco products (including smokeless tobacco) were \$226 million, FDA assumes that the total State excise taxes on tobacco products affected by this proposal are about \$6.3 billion annually. As described above, FDA estimated that compliance with this proposal would reduce cigarette sales by a gradually

increasing rate over time, falling by 0.5 percent in the first year, 2.1 percent in the fifth year, and 4 percent in the tenth year. Thus, the proposed rule would decrease State excise taxes on affected tobacco products by from \$31 million in the first year to \$252 million in the tenth year. Since tobacco taxes represented less than 1 percent of total State tax revenues in 1992,65 even the estimated tenth year impact measures only 0.03 percent of all State tax revenues. Nonetheless, if necessary, State governments could raise tobacco product excise rates to offset these revenue losses. The issue is complex, however, because a full evaluation of the fiscal consequences of this proposal must consider a variety of public health impacts. For example, state Medicaid programs would benefit from reduced medical care expenditures, but they may also need to finance nursing home expenditures that climb with increased life expectancy.

F. Small Business Impacts

The Regulatory Flexibility Act requires agencies to determine whether the effects of regulatory options would impose a significant impact on a substantial number of small entities and to consider those options which would minimize these impacts. Although most manufacturers of tobacco products are large corporations, the distribution of the product involves numerous small enterprises that would be affected by the

proposed rule. For example, as explained earlier, the proposal would initially reduce the revenues of vending machine operators by at least 3.4 percent and almost three quarters of all vending machine operators are small businesses, having annual sales of less than \$1 million.⁶⁶ Further, the proposed rule would affect the distribution of specialty items showing a tobacco product logo or name. According to the Specialty Advertising Association International, 80 percent of the manufacturers and 95 percent of the distributors in this industry have annual sales below \$2 million. While the market place in which these firms compete traditionally demands a quick response to constantly shifting market trends, this rule would have at least short-term impacts on many of these firms.

The proposed regulation would also affect numerous retail establishments, primarily convenience stores, but also small grocery stores, small general merchandise stores and small gasoline stations. Table 4 displays the relative share of the tobacco market for major types of tobacco-dispensing outlets in 1987. As shown, food stores and service stations received almost 75 percent of all tobacco sales revenue and tobacco products comprised 5 to 6 percent of the total sales of many of these establishments. The great majority of these retail outlets are small businesses.

TABLE 4.—SALES OF TOBACCO PRODUCTS AS A PERCENTAGE OF TOTAL SALES—1987
[Establishments with Payroll Only]

| Establishment type | Tobacco sales | | % of total sales | |
|----------------------|---------------|-----|---|------------------------------|
| | (\$ mils) | (%) | Estab- lish- ments han- dling to- bacco | All es- tablish- ments |
| All | 23,231 | 100 | 5.0 | 1.6 |
| Food Stores | 13,057 | 56 | 5.0 | 4.3 |
| Service Stations | 4,280 | 18 | 6.5 | 4.2 |
| Drug and Proprietary | 2,152 | 9 | 5.1 | 4.0 |
| General Merchandise | 1,470 | 6 | 2.1 | 0.8 |
| Liquor Stores | 706 | 3 | 7.2 | 3.8 |
| Eating and Drinking | 182 | 1 | 2.4 | 0.1 |

Source: 1987 Census of Retail Trade, Merchandise Line Sales.

To illustrate the effects of this proposal on a typical small retail store, FDA separately estimated the likely compliance costs for an average-sized convenience store that sells 300 packages of tobacco products daily, of which about 50 might be purchased by young adults aged 18 to 26. Based on

the cost assumptions described above, the outlet's first year costs would total about \$320, with the largest single cost, \$285, the labor cost for checking identification. For those stores that already verify the age of young customers of tobacco products, the additional costs fall to \$35. This

estimate does not account for the possible reduction in promotional allowances, although these allowances might fall following a ban on self-service marketing. Alternatively, as noted above, manufacturers would continue to compete for the best shelf space for their products, perhaps even