The more competitive the retail industry, the lower both prices and sales tax receipts will be.
- The industry is increasingly competitive.
- Consumer demand for most goods is elastic. As prices fall, less is spent, though rising incomes and population predominate.
- The money saved on goods is spent on services and leisure pursuits—most of them untaxed.
Consumer Spending on Goods Shrinks as a Share of the Total
(Spending on durables and nondurables as a % of total nonhousing spending)

Consumer Spending on Goods Also Falls Relative to State & Local Spending
(Spending on durables and nondurables as a % of NIPA operating budget for states and municipalities)
A Disappearing Tax Base

- Taxing goods and services with inelastic demand has its own problems.
  - The candidates are either essential or “sinful.”
  - Are taxes to raise money or discourage use?

- What states need is Giffen goods.

Will Demand for Cigarettes Remain Inelastic? (Bondholders Hope So)

(Billions of dollars)


Nominal Real
Retail Prices for Tobacco Products Race Ahead of Wholesale

(Ratio of CPI for tobacco products to PPI)

Manufacturers Eat the Sales Tax Increases

(Indexes for tobacco products)
More and More of the Consumer’s Dollar Goes for Medical Care

(Spending on medical care as a percent of all consumer spending)

A Disappearing Tax Base

- E-commerce—mostly untaxed is growing by leaps and bounds.
  - What about digitized products, e.g. software, music, movies, books.
  - What about on-line auctions? Anyone can be a dealer. Ebay only provides the infrastructure.
  - What about international sales?
- Unpleasant alternatives
  - Tax more services.
  - Charge more fees.
  - Raise other taxes.
E-Commerce Is Small, But Growing Fast

Percent of Total (Right)

E-Commerce Sales (Left, $ billions)

Copyright © 2003 Global Insight, Inc.