

Cigarette Taxes and Interstate Smuggling

Idea for Future Research

By James Sly

Smoking is still one of the most significant public health problems of our time, and cigarette taxes are one of the most effective ways to deal with it. One problem that reduces the effectiveness of these taxes is the smuggling of cigarettes between states with low cigarette taxes to states with high cigarette taxes. I would like to do a study that examines each increase in a state's cigarette tax, and then calculates the relative fall of taxed cigarette consumption compared to the overall change in price. Once we calculate this price elasticity of demand for taxed cigarettes due to a tax increase, we can plot each elasticity on a graph based on the largest difference in cigarette taxes between the state that raises their cigarette tax and all of their neighboring states. If it turns out that states that border a very low cigarette tax state have a very large drop in taxed cigarette consumption relative to states that only border those with high cigarette taxes, then this means a lot of cigarettes are likely being smuggled from low tax states. This would indicate that the fall in taxed cigarette consumption does not actually indicate a fall in actual cigarette consumption, and that interstate smuggling is playing a significant role in undermining that effort.

If true, then perhaps what the US needs is a national minimum cigarette tax, much like a national minimum wage, where states can have higher cigarette taxes and keep all the money for the state, but if a state has a cigarette tax lower than the national minimum then the federal government will collect the cigarette taxes themselves to make up the difference and keep the revenue for the federal government. This would provide a strong incentive for states to follow through and raise their own cigarette tax up to the federal minimum since there would be no change to the tax imposed on smokers who buy cigarettes but the state government would get to keep all the revenue rather than let the federal government use it. Imposing such a tax would not only reduce the harmful effects of interstate cigarette smuggling, but also reduce the amount of smoking in states that currently have very low state cigarette taxes.