



Cigarette Smuggling Still Rampant, Problematic

Summary

Increasing the tax rate on cigarettes tends to lead to more smuggling.

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By Michael LaFaive and Todd Nesbit, Ph.D.

The Mackinac Center for Public Policy has since 2008 published estimates of cigarette-smuggling rates by state. Our latest study update — published with the Tax Foundation of Washington, D.C. — details such numbers through 2013 and indicates that Michigan is still ranked 10th in the nation for smuggling. Nearly 25 percent of all the cigarettes consumed in the Great Lakes State were smuggled in during 2013.

Our estimates again show that New York is the No. 1 state for tax evasion and avoidance, at 58 percent. This is not a surprise to us, as New York has the highest state excise tax in the nation and the second-highest state-local combined rate. New York City maintains a municipal cigarette excise tax of \$1.50 per pack. Exacerbating New York's problems is its geographic proximity to low-tax states like Virginia.

The top five smuggling states in this year's study are New York, Arizona, Washington, New Mexico and Rhode Island. The state of Washington is currently toying with the idea of another 50-cent excise tax hike. Our model estimates that, if the increase were adopted, Washington's smuggling rate would leap from 46.4 percent to 52.5 percent, displacing Arizona from its perch at No. 2 in our annual rankings.



According to Mackinac Center estimates, nearly one out of every four cigarettes consumed in Michigan is smuggled in.

It is worth noting here that the Mackinac Center uses the word “smuggling” to describe all the cross-border cigarette trafficking reported by its model. One small caveat is that not all tax avoidance is tax evasion. That is, some states, like Minnesota, permit their citizens to bring small amounts — such as a carton per month — into the state. Those transfers may not be illegal, but they are nonetheless picked up in our statistical model and described as a smuggled good.

At the opposite end of the smuggling spectrum is New Hampshire, a perennial smuggling “export” state. By our estimate, for every 100 cigarettes consumed in the state, an additional 28.7 are smuggled to other states.

The Mackinac Center for Public Policy is not the only institution to publish cigarette-smuggling rates by state in 2015. The National Academy of Sciences and the Institute of Medicine jointly published a study Feb. 19 that highlighted Mackinac Center scholarship, partly because our statistics are widely used elsewhere, and partly because

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their researchers used a similar measuring technique. Their study is titled “Understanding the U.S. Illicit Tobacco Market: Characteristics, Policy Context, and Lessons from International Experiences.”

Their comprehensive review of the subject — including a look at other scholarship — suggested a nationwide smuggling range of 8.5 percent to as much as 21 percent. The report, using the Mackinac Center’s 2013 data, estimates the national smuggling rate at 13.5 percent.

A few other numbers from that study jump out at us. It estimates the state of Washington’s 2012 smuggling rate at 45.5 percent, nearly identical to our own estimate. In other words, the Mackinac Center and the national academy, working independently, measured a smuggling rate for Washington nearly identically. Even if both groups are off by 15 points, it is safe to say the Evergreen State has a real smuggling problem.

All of these numbers point to significant problems for policymakers who have honestly believed they are improving public health by raising excise taxes. In fact, their hopes may be diminished by those very taxes when people search out lower-cost alternatives.

A 2014 study in the Journal of Economic Inquiry titled “Do Higher Tobacco Taxes Reduce Adult Smoking” sums up our argument well. The authors write: “Considering all the evidence, we conclude that there is insufficient justification for the widespread belief that raising cigarette taxes will significantly reduce cigarette consumption among adults, even young adults.”

A better tack for policy makers is to stop raising cigarette taxes, and in some cases to cut them.

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