Setting Cigarette Tax Rates: The Competing Forces of Median Voter and Interest Groups†

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Abstract

This study applies median voter theorem and special interest politics to explain the setting of cigarette tax rates in the 48 states of the United States between 1996-2000. We measure median voter’s preferences and political influence of special interest groups using CPS Tobacco Use Supplements and data from National Institute on Money in State Politics (NIMSP). Based on a theoretical framework provided by Grossman and Helpman (1996), we examine the competing forces of median voter and interest groups in setting state cigarette tax rates. Our preliminary results from OLS regressions show that state cigarette tax rates are affected by the political contribution from tobacco industry and party dominance. However, the effects diminish when estimated with fixed effect specifications. The median voter’s preference does not appear to play a significant role in state cigarette tax setting regardless of model specifications.

(This empirical analysis is currently under revision in several aspects as described in the concluding section.)

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