

Price Isn't Everything: Behavioral Response around Changes in Sin Taxes

Alex Rees-Jones and Kyle Rozema*

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Taxes change behavior. But how does this change arise? In traditional economic models, change is achieved through the price channel: assuming all else is held constant, taxes increase prices and thus decrease demand. However, the assumption that all else is held constant may be violated in the course of a legal change, in part because the process by which laws are changed often involves the provision of information, attempts at persuasion, and the deployment of alternative dissuasive tools. We examine violations of this assumption in a particular policy domain: discouraging smoking with cigarette taxes. We document a marked increase in related media coverage, lobbying efforts, place-based smoking restrictions, and anti-smoking appropriations in the time period surrounding a tax law change. The intensity of these factors is directly associated with decreases in cigarette consumption in a manner that could be confused with price effects. Our results suggest that price effects may have a surprisingly small role in the behavioral response that occurs around tax law changes.

* Rees-Jones: Assistant Professor, The Wharton School; Faculty Research Fellow, National Bureau of Economic Research. Rozema: Wachtell Lipton Fellow in Behavioral Law and Economics, University of Chicago Law School. We thank Douglas Baird, Adam Chilton, Erin Delaney, Gerrit De Geest, Dhammika Dharmapala, Michael Frakes, Ezra Friedman, Daniel Hemel, William Hubbard, Don Kenkel, Genevieve Lakier, Sarah Lawsky, Ben Lockwood, Anup Malani, Jonathan Masur, Richard McAdams, Adam Rosenzweig, Sarath Sanga, Max Schanzenbach, Dmitry Taubinsky, and seminar audiences at Berkeley (Haas), University of Chicago Law School, Washington University School of Law, and Wharton for helpful comments. We thank Andrew Joung for excellent research assistance.