

Health Behavior in the Worker's Paradise? Did Forty years of German Socialism Lead to Different Smoking Behavior?

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Abstract

We use retrospectively reported data to construct the lifetime smoking history of German Socio-Economic Panel Survey respondents from both the former east and west German states. We track smoking behavior before and during the separation of East and West Germany and after its reunification. We use the historical separation to study cohorts of men and women who came of smoking age in each period. We exploit temporal variation in the cigarette tax and average cigarette price from 1925 to present, including during the period from 1948 to 1989 in East Germany. Germany's modern tobacco tax began in 1906. Initially it was levied at a flat rate per cigarette, the level of which was higher for cigarettes that sold for a higher retail price. During World War I, seeking revenues to finance the war, the government more than doubled the cigarette tax in some price ranges. In the 1920s the tax was set to be a fixed percent of the cigarette retail price - rising from 20 percent in 1925 to up to 90 percent in 1941. After the war the Allied troops lowered the rate to 60 percent. In 1951, the recently elected government reduced the tax rate further - to 58 percent of the retail price. With the 1953 tax reform they reintroduced the specific tax levied on each cigarette and simultaneously lowered the tax rate levied on the final retail price. Today, smokers pay an indirect tax, a consumption tax, and a combination of a wholesale tax and a value-added tax. Our main focus is whether smoking decisions of people in East Germany (especially those born in East Germany) respond differently to cigarette price than do decisions of people in West Germany. We find that the response to price was exactly the same in both regions of Germany.

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