

THE ECONOMICS OF TOBACCO IN EASTERN EUROPE

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Both demand and supply side issues are relevant to the discussion of the economics of tobacco in Eastern Europe. When debating methods to control tobacco use, demand side factors become most interesting and relevant.

According to economic theory, the demand for any good including cigarettes is dependent upon its market price. As the price of a good rises, the amount of the good demanded by a consumer falls. Producers continuously try to capture consumers. They do so in a variety of ways. Tobacco companies sponsor promotions, provide free samples and fund advertisements in the media, on billboards, in newspapers and magazines. Often, producers seek out groups of individuals who are most amiable to purchasing and consuming their product. In the case of cigarettes, tobacco firms spend billions of dollars each year on youth specific promotions. Such activities shape demand and are intended to help capture teenagers in the market.

Governments, like producers, have the power to influence consumer demand. Specifically, policy makers possess various economic and legal tools, which may counteract producer efforts. In several countries, tobacco taxes have been used to raise the price on tobacco products and lower the demand for cigarettes. Legal bodies can enact various bans – including bans on tobacco advertisement, product promotions or smoking in public places – to help discourage cigarette consumption. Health warnings on tobacco products and advertisements alert the public of the adverse affects associated with using tobacco.

Given diverse demographic and socioeconomic characteristics, research often finds particular groups of people reacting differently to tobacco control policies. For example, youths, because of their low incomes, have been proven to react more sharply to increase in the price of cigarettes. Similarly, cigarette demand in low income countries has shown to be twice as responsive to price increases than in high income countries. Similar analogies can be made to the transitional economies of Eastern Europe.

Finally, tax increases on cigarettes alone are not the single, most optimal tobacco control tool. Policy makers must be aware of possible unintended effects of tax increases including: smuggling and substitution from “usual” brands (including substitution from imported to domestic brands) and substitution towards other types of tobacco products if the taxes are only applied to cigarettes. An effective tobacco control plan imposes tobacco tax increases, health warnings and limits on advertising and smoking in public areas.