

# The Economics of Smoking Bans

by Arthur E. Foulkes

**T**he war on smoking is proceeding with rapid progress. Anti-smoking activists are successfully fighting for smoking bans in restaurants, bars, bowling alleys, and other places open to the public. California and Delaware have banned smoking in virtually all restaurants and bars. Smoking is prohibited in restaurants in Maine, and voters in Florida recently approved a constitutional amendment that will do likewise.

Several local governments have joined in. Smoking is banned in all restaurants and bars in Tempe and Guadalupe, Arizona; Cambridge and the Cape Cod area of Massachusetts; Corvallis and Eugene, Oregon; and Helena, Montana. Other local authorities have confined themselves to banning smoking in restaurants only. Some of these include Tucson and Mesa, Arizona; Fort Wayne, Indiana; Erie County, New York; Cabell County, West Virginia; and several towns and cities in Texas. And this is just a quick sampling.

Why all the bans? Advocates say they are protecting either children or workers (or both) from secondhand smoke, also known as environmental tobacco smoke (ETS). The Environmental Protection Agency (EPA) considers ETS to be a Category A carcinogen—meaning it is a substance known to cause cancer in humans. A federal judge

later overturned the EPA's finding, noting the agency "adjusted established procedures and scientific norms" to reach its conclusion.<sup>1</sup> The EPA appealed the judge's ruling and maintains that ETS "is responsible for approximately 3,000 lung cancer deaths each year in nonsmoking adults" and harms the "respiratory health of hundreds of thousands of children."<sup>2</sup> The prestigious Mayo Clinic concurs: "Research has linked second-hand smoke to lung cancer, cardiovascular disease, low birth weight, sudden infant death syndrome, asthma, bronchitis" and more.

Even if the EPA is right and ETS is harmful, does this justify government's telling property owners they can't allow smoking on their premises? According to smoke-free advocates, the answer is an unadulterated yes. New York Mayor Michael Bloomberg, who favors banning smoking in New York City bars, restaurants, and even outdoor cafes, puts the case this way: "Common sense and common decency demand . . . the need to breathe clean air is more important than the license to pollute it." (Does this mean we should also ban all other "non-essential" activities that pollute, such as pleasure boating, family vacations, and motorcycle rides?)

Bloomberg is an example of a full-bodied smoke-free advocate. This type wants government to protect workers by banning smoking in all workplaces, including bars. A more "mild" variety of smoke-free advocate

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only wants to protect children by banning smoking in restaurants, bowling alleys, and other places accessible to kids. Of course, some “milds” hope to extend restaurant bans to bars next.<sup>3</sup> The chief executive of the American Cancer Society summed up the “full-bodied” view: “A bar is a workplace. You should not be allowed to smoke in a workplace.”<sup>4</sup>

The argument that children should not be exposed to secondhand smoke strikes a chord. After all, even libertarians believe government should protect citizens from harm inflicted by other citizens. If children are being abused when parents drag them into Denny’s or some other restaurant where smoking is allowed, isn’t it within the proper scope of government action to prevent such harm?

But if this is so, why stop at restaurants? Under this reasoning, smoking should be banned anywhere children are present, including private vehicles and homes. The smoke that kids of smokers breathe in a restaurant is negligible compared with what they get at home or on a drive. If ETS amounts to abuse, what possible difference does it make where the abuse takes place?

But parents permit or partake of lots of activities that might be detrimental to their children’s health. Some allow their kids to eat lots of fast food or to watch too much television. Statisticians could quickly find correlations between these behaviors and bad health as well.

What about protecting workers? Many workplaces are unsafe or potentially unsafe. That creates a disincentive for many people to accept such jobs and allows perhaps less well-qualified and less particular workers to take the jobs. The element of danger or discomfort also forces employers to offer higher wages than otherwise. For those then willing to take the jobs, it means higher pay. By making workplaces smoke-free, some better-qualified workers will now be attracted to those jobs, driving the lesser-qualified workers into even less-desirable work—possibly at jobs with more immediate dangers—or out of work altogether.

## Enter the Econometricians

The war over smoking bans reached low ebb when the opposing sides started funding academic studies to argue that the bans are having either a positive or negative effect on the restaurant industry in smoke-free communities. Some restaurant trade groups sponsored studies showing a decrease in restaurant business after the smoking bans went into effect. But these studies have been largely dismissed as based on “anecdotal information”<sup>5</sup> or “funded by the Tobacco industry.”<sup>6</sup>

Meanwhile, on the antismoking side, several studies (largely undertaken by smoke-free advocates, but never mind) have shown smoking bans have not harmed the restaurant industry. Some have even shown an *increase* in overall restaurant business. These econometric studies have examined several communities, including Fort Wayne, Indiana; Boulder, Colorado; Dane County, Wisconsin; New York City; Chapel Hill, North Carolina; Flagstaff, Arizona; West Lake Hills, Texas; and several locations in California and Massachusetts. Their findings are based on restaurant sales-tax receipts or other aggregate data.

Does this mean economics supports the smoking bans? Not at all. As noted, all the studies supporting smoking bans are based on *aggregated* restaurant sales data; they look at the “restaurant industry” in the smoke-free communities. They largely ignore what might be happening under the surface to *individual* businesses and completely ignore the extent to which the bans further erode the essential concept of private property rights—the very linchpin of wealth creation in a market economy.

That said, there is no reason to doubt, as the econometric studies show, that overall restaurant business *has* increased in some areas with bans. As one restaurant owner who favors the smoke-free ordinances noted, “If 75 percent of people don’t smoke and 25 percent do, that means 75 percent are going to eat out more and 25 percent are going to eat out less.”<sup>7</sup>

But does this mean smoking bans are really

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a “win-win situation for restaurant owners, restaurant workers and restaurant patrons,” as the commissioner of the Massachusetts Department of Public Health proclaimed?<sup>8</sup> Again, not at all. For some restaurants or types of restaurants, the benefits of a smoke-free ordinance will outweigh the costs. For other restaurants and bars this will likely not be so. Blue-collar bars and restaurants, for example, may be especially hard hit, since, according to the National Opinion Research Center, smoking is more common among blue-collar workers and people with lower incomes.<sup>9</sup> Bars that cater to these customers may suffer a loss of business.

Moreover, where ordinances fall short of an outright ban, but require costly remodeling and nonsmoking sections, larger chain restaurants may be better able to cope than smaller competitors. For example, some ordinances require floor-to-ceiling dividers keeping bar areas separate from eating areas, or independent ventilation for smoking rooms. While overall restaurant business may increase, certain kinds of restaurants may suffer or go out of business. As usual, then, we see that government regulation of private business simply creates new winners and losers. It creates no new wealth, and, as we will see, actually squanders it.

## An Austrian Perspective

Yet another economic reason to resist smoking bans has to do with the importance of private property to a prosperous society. In a free society standards of living rise when goods and services are available more abundantly and in accordance with consumer preferences. Entrepreneurs play a vital role in this story because they direct productive resources toward ends they believe will sat-

isfy consumers. If they guess correctly they profit; if they are wrong they suffer losses and abandon their enterprises.

When an entrepreneur invests in a restaurant, he does not invest in the aggregated “restaurant industry,” but rather in a *specific kind* of restaurant, one he believes will satisfy consumers. In short, he has a specific plan in mind.

Any plan can be carried out only if the planner has control—as much as possible—over the necessary implements. A football coach can draw plans all day, but he is wasting his time if the players are following another person’s orders. If he lacks control over his team, he will soon stop planning altogether. Such control is also vital to entrepreneurs. As the great Austrian economist Ludwig von Mises wrote, “Private ownership means the proprietors determine the employment of the factors of production. . . . Where it is absent, there is no question of a market economy.”<sup>10</sup>

It has become common for government bodies to dictate the uses of private property. As Mises observed decades ago, “[N]owadays there are tendencies to abolish the institution of private property by a change in the laws determining the scope of the actions which the proprietor is entitled to undertake with regard to the things which are his property. While retaining the term private property, these reforms aim at the substitution of public ownership for private ownership.”<sup>11</sup>

This tendency is clearly alive and well today. But the more that government bodies usurp the ability of entrepreneurs to plan, the more they erode the role of entrepreneurship and deaden wealth creation. Simultaneously, in such a system entrepreneurs begin spending time and resources not look-

ing for new ways to satisfy consumers, but attempting to influence government, spending thousands or millions lobbying. In this way, wealth is actually squandered.

Most of us don't like breathing other people's smoke, but it is more an annoyance than an immediate threat to our lives. (Even directly smoking a cigarette does not instantly kill us like some exotic poison.) One smoke-free study found the number-one reason people avoid smoky restaurants is they don't like the lingering smell of cigarette smoke on their clothes and in their hair.<sup>12</sup> My wife and I sometimes avoid places we know will be especially smoky. Other times we don't particularly care. It depends on our values at the moment. (She actually favors smoking bans, so I'm doing a little risk/benefit analysis just by writing this.) Even the most strident smoke-free advocate may accept a table in a restaurant's smoking section if, for example, he is in a big hurry and wants the next available table. Just going to work or school each day involves risk/benefit analysis. It is simply a part of life.

Members of Congress, those people most eager to tell the rest of us how to live, allow individual members to decide the smoking policy in their own offices on Capitol Hill.<sup>13</sup> Restaurant and bar owners should have the same freedom, even if large majorities favor a ban on smoking. Workers too should be free to work where they would like and make their own risk/benefit tradeoffs. And parents, not the government, should be responsible for their children's well-being. By usurping the parental role, governments

not only seize authority over children, but also make children out of adults. This approach, in addition to being morally destructive, is bad economics as well—regardless of what the econometric analyses say. □

1. Antismoking activists note that U.S. District Judge William L. Osteen's court was in North Carolina, a key tobacco-growing state. However a year earlier antismoking forces applauded the same judge for ruling the U.S. Food and Drug Administration had the authority to regulate cigarettes. A higher court overturned that ruling. See Joseph Perkins, "Has EPA been promoting one big secondhand smoke screen?" *Ventura County Star*, July 29, 1998, [www.junkscience.com/news3/perkins.htm](http://www.junkscience.com/news3/perkins.htm).

2. U.S. Environmental Protection Agency, "Fact Sheet: Respiratory Health Effects of Passive Smoking," [www.epa.gov/iaq/pubs/etsfs.html](http://www.epa.gov/iaq/pubs/etsfs.html). The strongly anti-tobacco World Health Organization conducted "one of the biggest single pieces of research" into the question of ETS and lung cancer. It found no statistically significant correlation and was later widely accused of "burying" its own findings. See "The World Health Organization is showing signs of allowing politics to get in the way of the truth," *The Economist*, March 14–20, 1998.

3. Douglas Martin "Smoking Ban Has Not Hurt Restaurants, Analysts Say," *New York Times*, January 12, 1999.

4. *Ibid.*

5. Centers for Disease Control, "Assessment of the Impact of a 100% Smoke-Free Ordinance on Restaurant Sales—West Lake Hills, Texas, 1992–1994," *MMWR Weekly*, May 19, 1995, pp. 370–72, [www.cdc.gov/mmwr/preview/mmwrhtml/00037061.htm](http://www.cdc.gov/mmwr/preview/mmwrhtml/00037061.htm).

6. Martin.

7. *Ibid.*

8. "Massachusetts Department of Public Health Releases New Report on the Economic Effects of Restaurants Going 'Smoke-Free,'" Massachusetts Department of Public Health Press Release, March 27, 2001.

9. Survey data show blue-collar workers 10–15 percent more likely to smoke than white-collar. Also, the same survey researchers showed a strong inverse correlation between smoking and income. James Allan Davis and Tom W. Smith, General Social Survey(s), 1990, 1989, 1988, 1987, produced by the National Opinion Research Center, Chicago.

10. Ludwig von Mises, *Human Action*, 4th rev. ed. [paperback] (San Francisco: Fox & Wilkes, 1996), pp. 682–83.

11. *Ibid.*, p. 683.

12. "Studies Find Massachusetts' Smoke-Free Ordinances Having No Significant Effect on Restaurant Revenue," *U.S. Newswire*, January 11, 1999, posted at [www.gasp.org/nyrest.html](http://www.gasp.org/nyrest.html).

13. See [www.c-span.org/questions/weekly61.asp](http://www.c-span.org/questions/weekly61.asp).