The Economic Impact of Smoking Bans

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One of our scholars, Michael Pakko, has a piece looking at the economic effects of smoking bans in this month's issue of The Regional Economist, a quarterly journal published by the Federal Reserve Bank of St. Louis. He's written a few other pieces about smoking bans during the past few years, and this new article (which has been spotlighted by the Kansas City Star, the Post-Dispatch, and KWMU) brings a considerable amount of fresh research to the table, much of which "suggests that at least some businesses do suffer costs." Pakko concludes that, "When they consider passing smoking bans, policymakers should study evidence both from public health professionals and from economists."

Pakko's conclusion supports a crucial insight about smoking bans — they're not just a matter of public health. Any general health benefits that may be gained from blanket anti-smoking laws have to be weighed against other measures of human welfare and happiness.
I've never smoked, but during the course of my life there have been many occasions that I've decided it's worth the small health risks of some amount of exposure to secondhand smoke in order to, say, see live music (or, when I was much younger, earn money by working at fast food restaurants). In every one of those instances, I would have preferred a non-smoking environment, and I'm sure some other people shared my preference. But all the smokers, had they been forced by a blanket law to cease puffing away, would have enjoyed themselves less, to varying degrees.

Economists have a broadly-defined word for happiness, or satisfaction: utility. Although a mandated non-smoking environment increases my own utility, it simultaneously decreases utility for those who are barred from smoking. I can probably estimate my own utility in general terms, by using thought experiments: For instance, I would put up with a smoke-heavy environment to see King Crimson, but the smoke would probably edge out my desire to see Ben Harper, a performer I enjoy to a significantly lesser extent; so if I consider the amounts I'd be willing to pay for tickets to see each band under ordinary non-smoking conditions, I can roughly calculate the amount of utility I'd lose if a smoky environment made me miss out on music I'd otherwise enjoy.

But I can't calculate the aggregate utility that all the smokers at an event would lose if a law prevented them from smoking, because they would each have a different marginal utility for the value of smoking at a given concert. Absent the actual observation of each smoker's preferences over time, there's no way to measure that aggregate utility — and, so, no way to measure the amount of happiness or satisfaction they lose after a smoking ban is passed, or weigh it against the increased happiness of non-smokers.

This is one reason economists tend to be suspicious of regulation — because centralized authorities have no mechanism to measure the aggregate utility of the people their laws will impact. The economic effect of a regulation on specific businesses is an important subsidiary measurement, but it's only the tip of the full utility iceberg. Markets, though still far from perfect, ultimately do a better job of maximizing aggregate utility because each individual market participant is able to estimate his or her own utility in a way that no legislator can, and then act accordingly — either buying a product, attending a concert, patronizing a bar, or not.
If a large enough number of other people enjoy smoking, and accept its long-term health risks, I have no place denying them the opportunity to do so. If a privately-owned "public" establishment decides it wants to cater to smokers, I can choose to patronize a different business or put up with the smoke, if the other aspects of a given opportunity set outweigh my loss of utility from the smoke itself.

At the very least, if the public-health mavens are resolute in their insistence that a regulatory solution is necessary, there are options other than blanket prohibition that at least acknowledge the existence of varying individual preferences, such as proposals to provide incentives for businesses to go smoke-free, or allowing some establishments to opt out of a ban, if they and their customer base want it badly enough. Markets don't provide results that are good for all people, all the time, but at least markets aim to please large segments of the population, most of the time, by catering to decentralized, individual needs and wants.

About the Author

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