

Smoking

There have always been well-meaning people burdened with superior wisdom about what others should do with their lives. They have typically found government clout more convenient than persuasion as a means of sharing their wisdom. A pervasive example of such anti-liberalism is the continuous, ubiquitous and increasing pressure to ban or regulate smoking, to ban or control the advertising of cigarettes, and to tax or restrict the sale of tobacco products. Certainly there has been a worldwide swing in middle-class consumer tastes away from smoking. Increasingly smoking is a pleasure enjoyed by the less articulate, lower-income groups. Whatever the real motives of the anti-tobacco lobby, it is easier for its members to argue their case for taxes and regulations when they can claim these will benefit society by reducing the economic costs of smoking. Such arguments sound more noble than do outright paternalistic claims, elitist assertions, the desire for more tax income by government, or simply anti-cancer lobbies or medical researchers looking for official funds.

What Smoking Really Costs

Many studies have argued that smoking imposes enormous costs on society. One recent SA estimate put the figure at R1,4bn. Yet such figures – accurate or not – are entirely irrelevant for policy makers. What is the cost of climbing mountains or of sunbathing? Manufacturers of hiking boots and suntan lotions will be deeply interested, but the answers have no policy significance. Every activity has costs. As long as those who engage in it pay the costs, they can themselves best assess the benefits and decide how much or little they will pay for what they want. Only if it can be established that the full cost is not being borne by the consumer (but by someone else) is there a case for taxing an activity or restricting its use. So the relevant policy question regarding smoking is not how much it costs. It is instead how much, if any, of the costs non-smokers have to bear. The evidence suggests there is no support for the claim that smokers are not paying their own way. Those who incur the costs of growing tobacco, transporting, processing and packaging it receive full compensation when the smoker exchanges cash for cigarettes. But what about the indirect costs of lost productivity due to illness or premature death? What about the medical treatment costs of smoking-induced diseases?

Prof Leonard Wang of the Wits economics department and I recently examined the medical literature in the field. It does not unanimously support the alleged links between smoking and ill health. However, we had no competence to judge and so assumed – for reasons of conservatism, not of conviction – that the link did exist. In a paper in *Studies in Economics and Econometrics*, we argue that smokers, and not society as a whole, bear most of the social (or indirect) costs of smoking. It is smokers who pay the costs of ill health and earlier mortality through actuarially linked insurance and health care schemes. And where government provides health and other benefits it is smokers, through the taxes and excise they pay on cigarettes, who more than cover the costs of care. In respect of lost productivity, once more it is the smoker himself who suffers through the loss of salary and income in the event of temporary or permanent unemployment.

There is of course the problem of environmental smoke. This, however, is similar to ghetto-blasting, CD players or barking dogs. Common courtesy can deal with it, or employers, restaurateurs or cinema proprietors who wish to maximise their own profit by attracting a non-smoking labour force or clientele can voluntarily impose a ban on smoking. Government *diktat* is not required. Otherwise how could a restaurant owner attract – if he so wished – a smoking clientele?

And There Are Benefits Too

And the point is that there does exist a smoking clientele which benefits from smoking while dining, or finds it relaxing while working. A peculiarity of most of the articles on the cost of smoking is that few, if any, mention these benefits. Privately enforced smoking bans by individual private sector property owners who have the incentives to ban (or permit) the activity accommodate the continued co-existence

of smokers and non-smokers. The private sector permits pluralism of taste and behaviour. Governmentally enforced edicts eliminate smoking altogether. Markets encourage diversity and social harmony. Regulation compels conformity. Public policy on smoking – or anything else – is necessary only if there are external costs which cannot be internalised, that is, do not have to be paid for by private property owners. Since smoking usually occurs on private properties it is an illogical leap to argue that government should reduce the right of the property owners to permit smoking if they so wish. If private property owners can reach agreement, government has no business in telling others what to do. And if they cannot reach agreement there is still no *prima facie* case for official intervention. The question is always whether such intervention imposes more or less costs on society than the activity which is being “corrected”.

How can anti-smoking lobbies have such a disproportionate amount of media space and time? The lobbies are often backed by research groups with much to gain if they can bend government’s ear. Economist Mancur Olson points out that if a small number of people have a lot to gain by a particular action, while a large number have little to lose, then the gainer will be likely to support it. The small number of gainers will significantly increase their income or wealth, while the cost to the losers will be spread so thinly that individuals will not feel it is in their interest to oppose the measures. In short, lobbies representing small interest groups such as those opposing smoking are likely to have a disproportionately large effect on decision-making, while organisations representing large groups such as smokers – particularly since they are so diverse in character and come from the less articulate sections of the community – are likely to be impossibly costly to organise and so be under-represented in the corridors of political power.

Wang and I suggest that, if consumers willingly buy a commodity, it indicates that society wishes its resources to be used to produce that commodity rather than some alternative they have refrained from buying. (To pre-empt the argument that the purchase is not voluntary because of tobacco’s addictive nature, one need only look at the large numbers of people who have quit smoking. The numbers are so large that the notion that they have somehow ceased non-voluntary behaviour as opposed merely to have given up a bad habit is difficult to accede to.) Producers are then motivated to allocate society’s scarce resources to their most highly prized uses as indicated by consumers’ preferences. In exercising their choice to buy and smoke cigarettes, consumers weigh up the costs (including possible health hazards) against the pleasure derived from smoking. Only if they judge the net result as positive will they dig into their pockets. Along this line, we showed that the net benefits from smoking appropriate R2bn above the health hazard costs and above the money price paid. The numbers, however, are not crucial.

The key issue is whether private incentives harmonise social interaction. The discussion suggests they do.

This Briefing Paper was written by Duncan Reekie and previously appeared in 1992 in Business Day.