



*Econ Journal Watch,
Volume 4, Number 3,
September 2007, pp 292-295.*

Smoking in Restaurants: A Reply to David Henderson

BENJAMIN C. ALAMAR¹ AND STANTON A. GLANTZ²

ABSTRACT

“SMOKING IN RESTAURANTS: WHO BEST TO SET THE HOUSE RULES?” BY David Henderson (Henderson 2007) is a comment on our paper “Smokefree Laws Increase Restaurant Values” (Alamar and Glantz 2004) published in *Contemporary Economic Policy*. Henderson asserts that both our economic theory and interpretation of our statistics are wrong. In asserting that our theory is not correct, Henderson asserts that “In restaurants, smokers do not impose negative externalities on non-smokers because restaurant owner’s have well defined property rights that cause them to internalize the costs and benefits of smoking.” This assertion cannot be true. It is not possible for a restaurant owner to internalize the cost of second-hand smoke on the health of the staff or the patrons. There is no mechanism by which a restaurant owner can compensate a patron for any health costs related to second-hand smoke, therefore it is not possible for the owner to have completely internalized the costs of the externality imposed by the smoker. This fact is one reason that the public has demanded laws to make restaurants smokefree.

Henderson points to another paper by Dunham and Marlow (2000), which was supported by Philip Morris Management Corp., as being a more correct analysis of the situation regarding the effects of smokefree laws on restaurant profitability. In contrast to our paper, which was based on hard data from actual experience, Dunham and Marlow based their analysis on a survey of restaurant and bar owners about what the effects of a smokefree law might be. In particular, the owners that were polled did not operate businesses in areas that are smokefree. Henderson (2007) claims that we do not put enough faith in these entrepreneurs’ views while discounting the likelihood that their opinions on smokefree laws could have been unduly influenced by years of tobacco industry propaganda

1 Assistant Professor of Management, Menlo College, Atherton, CA 94027.

2 Professor of Medicine and Director, Center for Tobacco Control Research and Education, UCSF, San Francisco, CA 94143-1390.

claiming that smoking restrictions hurt the hospitality business (Dearlove et al 2002). Unfortunately, the only information these entrepreneurs ever saw until recently were data put out by the tobacco industry. When these entrepreneurs only have the biased information given to them from the tobacco industry (without being told that it is coming from the tobacco industry (Alamar and Glantz 2004)) how are they to know that the information is biased?

Finally, Henderson asserts that the interpretation of our statistical analysis is not correct. Our analysis used a regression in which the dependent variable was the Price to Sales ratio (P/S), where price is the price at which a restaurant is sold and sales is the annual revenue of the restaurant. We found a positive effect on this ratio when smokefree laws were implemented which we argue implies an increase in the price of the restaurant. Henderson notes that because we use a ratio, the positive effect could just as easily come from a reduction in sales as an increase in price. While this is mathematically correct, Henderson ignores all of the previous literature on the topic. In a review of all the current literature at the time the our study was done, Scollo et al (2003) reviewed 97 studies on the economic effects of smokefree laws. Of those 97, 21 were found to 1) use objective data, 2) include all data points both pre and post implementation of a smokefree law, 3) controlled for secular trends and randomization and 4) controlled for overall economic trend (Scollo et al 2003). None of these 21 studies found a decline in revenue from the implementation of a smokefree law and in fact, the only studies that have ever found a negative impact on revenues from the implementation of a smokefree law are those studies funded by the tobacco industry. Our interpretation of the positive effect on the P/S ratio from the smokefree law is based upon this previous literature that finds no decline in revenue. If revenue does not decline (Scollo et al 2003) and the P/S ratio increases, then the price itself must increase.

Henderson (2007) does not accurately identify any problems either theoretically or statistically with our analysis. His criticism of our work is based on extreme interpretations of economic theory and an incomplete knowledge of the previous literature on the subject. The bottom line (Alamar and Glantz 2004) is that the implementation of a smokefree law to protect the public from the dangers of second-hand smoke increased restaurant values by a median of 16%. This result is consistent with all other literature on the subject that has not been funded by the tobacco industry.

REFERENCES

- Alamar, B.A. and S.A. Glantz.** 2004. Smokefree Laws Increase Restaurant Values. *Contemporary Economic Policy* 22(4): 520-525.
- Dearlove, J.V., S.A. Bialous, and S.A. Glantz.** 2002. Tobacco Industry Manipulation of the Hos-

pitality Industry to Maintain Smoking in Public Places. *Tobacco Control* 11(2): 94-104.

Dunham, John and Michael L Marlow. 2000. Smoking Laws and Their Differential Effects on Restaurants, Bars and Taverns. *Contemporary Economic Policy* 18(3): 326-33.

Henderson, David. 2007. Smoking in Restaurants: Who to Best to Set the House Rules? *Econ Journal Watch* 4(3): 284-291. [Link](#).

Scollo, M., A. Lal, A. Hyland, and S.A. Glantz. 2003. Review of the Quality of Studies on the Economic Effects of Smoke-Free Policies on the Hospitality Industry. *Tobacco Control* 12: 13-20.

ABOUT THE AUTHORS



Dr. Benjamin Alamar is a professor of management at Menlo College in Atherton, CA. He has published numerous articles in the area of tobacco control, public health and the economics of addiction. His work has appeared in top journals such as *The American Journal of Public Health*, *Tobacco Control*, and the *Journal of the American Statistical Association*. His email is balamar@menlo.edu.



Professor Stanton A. Glantz has been a leading researcher and activist in the nonsmokers' rights movement since 1978, when he helped lead a state initiative campaign to enact a nonsmokers' rights law by popular vote (defeated by the tobacco industry). In 1983, he helped the successful defense of the San Francisco Workplace Smoking Ordinance against a tobacco industry attempt to repeal it by referendum. He is one of the founders of Americans for Nonsmokers' Rights. In 1982, he resurrected the film "Death in the West," suppressed by Philip Morris, and developed an accompanying curriculum that has been used by an estimated 1,000,000 students. He helped write and produce the films "Secondhand Smoke" and "120,000 Lives." Dr. Glantz conducts research on a wide range of issues ranging from the effects of secondhand smoke through the reductions in heart attacks observed when smokefree policies are enacted, to how the tobacco industry fights tobacco control programs. His work in this area was identified as one of the "top research advances for 2005" by the American Heart Association. He has written several books, including the widely used *Primer of Biostatistics*, and *Primer of Applied Regression and Analysis of Variance*. He is author of more than 200 scientific papers. His book *The Cigarette Papers* played a key role in the ongoing litigation surrounding the tobacco industry.

His book *Tobacco Wars: Inside the California Battles* chronicles the battles against the tobacco industry in California. He also wrote *Tobacco: Biology and Politics* for high school students and *The Uninvited Guest*, a story about secondhand smoke, for second graders. He is now running two educational projects, SmokeFreeMovies.ucsf.edu, which is working to end use of movies to promote tobacco, and TobaccoScam.ucsf.edu, which is countering tobacco industry efforts to co-opt the hospitality industry. Working with the UCSF Library, he has taken the lead in making nearly 50 million pages of previously secret tobacco industry documents available to the entire world via the internet. He served for 10 years as an Associate Editor of the *Journal of the American College of Cardiology* and is a member of the California State Scientific Review Panel on Toxic Air Contaminants. He was elected to the Institute of Medicine in 2005. He is a Professor of Medicine (Cardiology) and American Legacy Foundation Distinguished Professor of Tobacco Control as well as Director of the Center for Tobacco Control Research and Education at University of California, San Francisco. His email is glantz@medicine.ucsf.edu.

[Go to September 2007 Table of Contents with links to articles](#)