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Smoking in Restaurants: Rejoinder to Alamar and Glantz

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A REJOINDER TO: BENJAMIN ALAMAR AND STANTON GLANTZ, "SMOKING IN RESTAURANTS: A REPLY TO HENDERSON," *ECON JOURNAL WATCH* 4(3), SEPTEMBER 2007: 292-295. LINK.

ABSTRACT

IN THEIR LAST PARAGRAPH, ALAMAR AND GLANTZ (2007) WRITE, "HENderson (2007) does not accurately identify any problems either theoretically or statistically with our analysis." This is an amazing conclusion, given that I did identify theoretical and statistical problems with their analysis. I will respond to the specifics, but I invite the reader to read my article and their reply together. Alamar and Glantz (2007) have largely chosen to ignore my criticism. I close with a challenge to Alamar and Glantz.

ECONOMIC THEORY

A quick recounting of our theoretical differences, up to but not including their response, is in order. Alamar and Glantz (2004) assert that smoking in restaurants imposes externalities. They argue that the large number of customers "with greatly varied preferences" with regard to smoking causes negotiation costs to be high. This, they argue, "violates the assumption of low costs in the Coase theorem" and, they conclude, makes smoking an externality that is not internalized.

My criticism (Henderson 2007) is that restaurant owners do not have to negotiate with customers. All they need do, whether the issue is smoking, dress-code policy, music, or menu choices, is make their decision and see how successful

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they are. Customers who want to eat in a non-smoking restaurant can do so; customers who want to eat in a smoking restaurant can do so; customers who want to eat in a restaurant that allows smoking in a designated area can do so. Customers show their values of these various options by the prices they are willing to pay and by the frequency of their patronage. Restaurant owners have an unbiased incentive to trade off the values put on smoking by various potential patrons and, therefore, do not reach a biased result in favor of allowing smoking. Introducing the desires of restaurant employees complicates the analysis without changing the bottom line: restaurant owners have an incentive, via wages paid and workmen's compensation, to take account of the desires of the employees also.

In their reply, Alamar and Glantz write:

> It is not possible for a restaurant owner to internalize the cost of second-hand smoke on the health of the staff or 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. (292)

Alamar and Glantz have completely missed my point. My argument is that not only is it possible for restaurant owners to internalize the cost, but also that that is what they do. There is no need for a "mechanism" to compensate a patron. Instead, the patron decides on the negative value he or she puts on a restaurant that has smoke and that negative value is reflected in what he or she is willing to pay for the restaurant experience. In that way, the putative externality is internalized. That is why I said that they beg the question: they start with the assumption that smoking in a restaurant imposes externalities rather than establishing that it does. It is not surprising that if one *assumes* that there is an externality, one will be driven to the conclusion that there *is* an externality. Interestingly, Alamar and Glantz (2007) avoided responding to my analogy between smoking policy and T-shirt policy. Yet all their reasoning, if correct, can be applied to T-shirt policy.

In deciding whether to buy, consumers come to the experience. If, following Alamar and Glantz's logic, smoke in restaurants is to be called an externality, then people who don't like some dimensions of experiences they came to would also suffer an externality. Customers at sports clubs who don't like the boisterous cheering would be suffering an externality. Patrons at the movie theater who don't like having to sit up so as to peer above the people seated in front of them would suffer an externality. People at Disney World who don't like having to wait in lines would suffer an externality. Alamar's and Glantz's definition of "externality" is too broad. It ignores the most basic characteristic of the idea: effects on parties who are *external* to the decisions that make for those effects. If you decide to go a restaurant, sit down, and buy a meal, you are not external to the ordinary and expected features of experience you find in the restaurant.

Finally, Alamar and Glantz (2007) state, "Henderson (2007) claims that we do not put enough faith in these entrepreneurs' views," namely the view that if consumers value it highly enough, some entrepreneurs will gain from a smoke-free environment. But I said nothing about faith. Rather, I believe that entrepreneurs often experiment and that some entrepreneurial restaurant owners will experiment with a ban on smoking. Then if banning smoking is as good for the bottom line as Alamar and Glantz claim, they will stick with the ban. When other restaurant owners observe the results, then they too will be more inclined to ban smoking—if, that is, Alamar and Glantz are right about the profitability of instituting bans on smoking. This is the standard story about what happens in competitive markets. Where is the "faith" in this story? Indeed, it is Alamar and Glantz (2007) who have faith, in two ways. First, they assert, "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?" Um, maybe by getting other information? Alamar and Glantz have complete faith that the tobacco industry has been such a powerful persuader that they have made all restaurant owners completely uncurious. This view that the restaurant owners have considered no other information is a strange view and one for which they give zero evidence.

There's another group in which Alamar and Glantz seem to have faith: voters. Basic public choice analysis has explored how enlightenment depends on incentives to overcome the costs and biases of ignorance, and on the complexity of the issues considered. Alamar and Glantz turn these teachings on their head. They show remarkably little confidence in the self-regarding wisdom of restaurant owners who have a huge amount at stake, and yet they have great confidence in the wisdom of voters, most of whom individually have little at stake. The externality from smoking, Alamar and Glantz argue, "is one reason that the public has demanded laws to make restaurants smokefree."

Yet, compared to restaurant owners, voters have much less incentive to become more enlightened in the matter, and the political issue they face as voters is vastly more complex than the decision a restaurant owner faces concerning his own particular business and his own customers. Somehow Alamar and Glantz overlook such elementary analysis.

There are better explanations for the fact that voters sometimes support smoking bans. One is that a non-smoking majority simply doesn't care about the effect that smoking bans have on restaurant owners and diners who would like to smoke. Another is that the typical voter who supports bans foolishly thinks that banning smoking is morally and socially right, and he doesn't overcome that foolishness, because, even if only implicitly, he knows his vote will not affect outcomes.

The Empirical Evidence

In Henderson (2007), I made three main criticisms of the empirical evidence in Alamar and Glantz (2004). Alamar and Glantz (2007) respond to only one of the criticisms. Again, I shall recount the debate quickly.

The statistical evidence in Alamar and Glantz (2004) was that in a cross-sectional study of restaurants, those restaurants in areas that banned smoking had a higher Price to Sales ratio (P/S) than those restaurants in areas that did not ban smoking. P here is the price at which a restaurant is sold and S is the annual sales revenue of the restaurant. From this finding, and this finding alone, Alamar and Glantz (2004) concluded that bans on smoking make restaurants more profitable.

My criticisms were three and I shall consider them in turn. First, the P/S ratio tells us nothing about the magnitude of P. I pointed out that if P/S is higher in areas with bans on smoking, this could be because P actually fell but S fell even more. This is the criticism to which Alamar and Glantz (2007) respond. They admit the mathematical point. But they cite literature showing that in fact S (sales) did not decline after a smoking ban had passed. If that were all there is to say on the issue, Alamar and Glantz (2007) would have made a good argument.

But that is not all there is to it. In citing the literature on sales, Alamar and Glantz (2007) say something interesting and revealing. They write that the literature cited included "all data points both pre and post implementation of a smokefree law." Their statement is consistent with one of my other criticisms of their original article. I had pointed out that in the areas where the ban was implemented, the restrictions may have wiped out some restaurants, making the remaining restaurants more profitable. Studies that consider the data on restaurants before and after a ban will miss the negative effect on restaurants that are eliminated; one cannot study what does not exist. Alamar and Glantz 2007 completely ignore the point, even though I made the point in the section titled, "The Forgotten Restaurants."

My third criticism was that to know the effect of a non-smoking ordinance, one would want to study the data in an area before and after the ordinance. Instead, as noted above, Alamar and Glantz (2004) do a cross-sectional study at a point in time. Not only do Alamar and Glantz (2007) not respond to this criticism, but also they do not even learn from it, as they misstate their own findings. They write, "We found a positive effect on this ratio when smokefree laws were implemented." But they did not find that at all, as they admit in Alamar and Glantz (2004). They did not look at what happened "when smokefree laws were implemented." That would have been the before-and-after study I called for. Instead, as noted, they looked at cross-sectional data.

Finally, there is another empirical problem with the results in Alamar and Glantz (2004) that I failed to point out in Henderson (2007). Dunham and Marlow (2000) point out that smoking bans on restaurants are more likely to be legislated in cities where a large percentage of the population already has a strong desire for such bans. This desire for bans, no doubt, reflects their own taste for restaurants that do not allow smoking. This means that any adverse effect of a smoking ban on restaurant revenues in such communities will tend to be low. But one cannot generalize from that fact to a conclusion about the effect of smoking bans in general.

Alamar and Glantz may attack Dunham and Marlow (2000) on the grounds that it was funded by a tobacco company. In their earlier paper, Alamar and Glantz put a great deal of weight on the funding source of various articles in lieu of judging the content of those articles. Surely funding by a tobacco company should make one approach such a study with more skepticism than otherwise. But the funding source alone is not enough to justify disputing its findings without giving reasons. Glantz has received much of his funding from the anti-smoking lobby and, indeed, from taxes on tobacco. That should make one skeptical of his findings. But the skepticism is not enough to warrant rejecting his findings. Notice that in no part of Henderson (2007) and in no part of this rejoinder do I dispute anything Alamar and Glantz write based on the source of their funds. My argument is solely based on logic and evidence, as it should be. To reject any finding on the basis of its funding is to attack the character of the researcher. As any elementary logic text will point out, such ad hominem attacks are illegitimate.[2]

A Challenge

As noted above, a major part of the argument in Alamar and Glantz (2004), which they repeat in Alamar and Glantz (2007), is that restaurant owners did not have access to information about the effects of a smoking ban other than the information that tobacco companies provided. Again, they gave no evidence for that claim. Let's assume for a minute, though, that Alamar and Glantz are correct that the restaurant owners had no other information. But now they do. The California non-smoking law in restaurants has been in effect since January 1, 1995. That has given us 13 years of experience. So their key argument about bad information, if it ever applied, surely does not apply now. There is no good case, therefore, even from their viewpoint, for imposing a ban in California today. If they are right, then ending the ban will cause no restaurants to start allowing smoking. If I am right, at least some will. I call on Alamar and Glantz to put their policy prescriptions where their theory is and call for ending the ban. And if they refuse to do so, it is fair for the rest of us to ask them, "Do you really believe your own imperfect information story or are you being the big bully on the block who believes that might makes right and doesn't care about the minority?"

2 See, for example, Joseph Gerald Brennan, *A Handbook of Logic*, New York: Harper & Row, 1961, p. 217.

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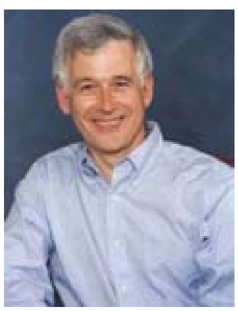
About the Author



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