

Undercover Economist: The true cost of smoking

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England's smokers are about to be banned from lighting up in pubs, restaurants and offices. The ban will be convenient for me: I don't smoke, and I don't like smoky pubs. Sadly, the government has not formally adopted a policy of formulating law for my personal convenience. The smoking ban is justified instead using fancy-sounding economic arguments about the "externalities" of smoking.

I like economic arguments as much as anyone, but in this case they do not point in quite the direction that most people seem to think. An "externality" seems a simple enough concept: it's a harm suffered or benefit enjoyed by some third party that isn't reflected in a market transaction. Pollution is the classic example. The idea is important, because even pro-market types believe that externalities are a market failure potentially justifying the government's involvement.

Yet the only credible arguments for restricting smoking have nothing to do with economics. The damage caused by second-hand smoke in pubs is not an externality. Neither is the cost to the National Health Service of treating smokers. An "externality" is not just any old cost or benefit; it has to lie outside a market transaction.

In the case of pubs and restaurants, the market could hardly be more obvious. The landlord wants to attract customers, both smokers and non-smokers, and he'll do that by giving them the ambience they want. At the same time, he also needs to attract staff, and since slavery has been illegal for a while in England, if the working conditions are unpleasant, he'll need to offer better pay to compensate.

So far, the English pub remains a smoker's paradise. Far from being an argument for government regulation to fix an externality, it's evidence that the smokers value their freedom to smoke more than the staff and non-smokers value a smoke-free environment. Many of the people who grumble about smoky pubs wouldn't go to smoke-free pubs either, or smoke-free pubs would already exist.

If non-smokers really felt strongly about second-hand smoke, these smoke-free pubs would attract flocks of high-paying non-smokers and staff would queue to work there even at lower wages. In practice, the "smoke-free" gap in the market has so far been filled by places such as Starbucks.

The smoking ban is usually phrased as a ban on smoking in "enclosed public spaces". Of course, a restaurant or pub is not a public space: it's a private space in which the public gather. (If you think a restaurant is a public space, try bringing a picnic along to one.) The irony of the legislation is that it forces smokers into what genuinely are public spaces - the pavements outside restaurants and office buildings - and produces a small externality where previously none existed.

Those who argue that smoking should be restricted because of the costs to the National Health Service are on even thinner ice. If I offered to pay for your private medical insurance out of the goodness of my heart, you would be unimpressed, and rightly so, if I then turned round and claimed that your smoking was now costing me money and so I had the right to hide your cigarettes. Similarly, the UK's decision to fund healthcare from tax revenues does not thereby give the government the right to restrict our freedom to take personal risks.

In any case, this is a dangerous argument. We all have to die in the end, and a sudden smoking-related heart attack is a cheap way to go compared with 30 years of state pension or round-the-clock nursing care for someone with Alzheimer's disease. If smoking turned out to be a money-saver for the government, would that really justify a cigarette subsidy? Economic arguments can be double-edged; sometimes they are best not wielded.

Tim Harford's book, "The Undercover Economist", is now out in paperback.

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