



*Econ Journal Watch,
Volume 5, Number 2,
May 2008, pp 169-173.*

Externalities in the Workplace: A Response to a Rejoinder to a Response to a Response to a Paper

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A REPLY TO: DAVID HENDERSON, “SMOKING IN RESTAURANTS: REJOINDER TO ALAMAR AND GLANTZ,” *ECON JOURNAL WATCH* 5(2), MAY 2008: 163-168. [LINK](#).

ABSTRACT

PROFESSOR HENDERSON HAS SIMPLY REPEATED THE SAME TWO POINTS HE made in his earlier critique (Henderson 2007) of our article “Smoke-free Ordinances Increase Restaurant Profit and Value” (Alamar and Glantz 2004). He argues 1.) that secondhand smoke is not an externality, therefore no government intervention is required to protect workers and customers in restaurants and bars, and 2.) the empirical results in the paper are not conclusive because the data are cross-sectional. Henderson also issues a challenge for us to advocate for the repeal of the California law on smoke-free restaurants. While we enjoy a good debate and do not mind adding another publication to our CVs, we do hope that Prof. Henderson will not find the burning desire to restate his position again, after we respond this last time.

AN EXTERNALITY EXAMPLE

It is often useful, as Prof. Henderson has done repeatedly, to use abstract examples that bear some resemblance to the theoretical point being made to insure that the point is fully understood. Because Prof. Henderson has not understood or chosen to ignore one of the central goals of smoke-free laws—protecting people from adverse health effects of secondhand smoke—we will use an example now to fully illustrate it.

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We would imagine that, while we all desire higher salaries, Prof. Henderson believes he is more or less adequately compensated by the Naval Postgraduate School. Any lack of salary is likely made up for in a nonpecuniary way by the lovely location of Monterey Bay, CA. His view might change, however, if asbestos was found falling from the ceiling in his office. Suddenly, he is made aware of a health risk that he has been bearing for years, yet has not been compensated for in any way. Now, since the School did not know about the asbestos either, imagine that Prof. Henderson goes to the administration, makes them aware of the situation and kindly asks them to remove the asbestos. Unfortunately for Prof. Henderson, the administration is, as academic institutions tend to be, cost conscious and responds that they simply cannot afford to remove the asbestos.

Since Prof. Henderson is a free individual, he is free to seek employment elsewhere, so he begins to look for a new position. Imagine now though, that there is asbestos in virtually every academic office in every institution of higher learning in the United States. But in Prof. Henderson's view of the world, once this becomes known, there would be a series of institutions experimenting with asbestos-free workplaces, so, since he prefers an asbestos-free workplace, he should have no trouble finding an institution that was willing to experiment in this way and bear a cost that they believe to be large.

It is possible that this imaginary world could work this way, but we do not share the same confidence in the willingness of academic administrators to be on the cutting edge. Instead, we see the asbestos as a clear externality that has been imposed on Prof. Henderson without his knowledge and without any sort of compensation. Moreover, his ability to change that situation is severely limited.

Likewise, workers in restaurants and bars are not compensated for bearing the risk associated with high and repeated exposure to secondhand smoke. Just as the government has taken action in numerous cases to protect workers from unnecessary and extreme risks, we see laws that end smoking from bars and restaurants as laws that remove an externality from the workplace.³

EMPIRICAL CRITIQUE

Henderson concedes the point that we made in our original response (Alamar and Glantz 2007a) regarding the Price to Sales (P/S) valuation ratio that our study (Alamar and Glantz 2004) utilized to assess the effect of smoke-free restau-

³ Incidentally, while we disagree with Prof. Henderson's view of the world (and wish him luck in finding a safer working environment) if he is correct, his argument provides an alternative explanation for why restaurants actually make more money when they are smoke-free. If Prof. Henderson is correct, then restaurant workers are currently being compensated for the added risks associated with long term exposure to secondhand smoke. Once the restaurant is smoke-free, the wages for the workers would decline, thus increasing the profit margin of the restaurant.

rant laws on restaurant profits. He correctly stated that a decrease in S could have led to an increase in the ratio. We responded that extensive research has already shown that S does not decline, and therefore the change must come in the form of an increase in P. He agreed with this assessment.

He has, however, repeated his “forgotten restaurant” critique as well as his suggestion that cross sectional data are not appropriate for this study.

Henderson’s “forgotten restaurant” critique suggests that some restaurants may be harmed from the smoke-free law and therefore, we should not impose such a law. Henderson is apparently trying to restrict governmental action to action that is Pareto improving, that is, a law should only go into place if it benefits everyone. Clearly this is not the standard at which the United States has set government action.

Additionally, this point is not ignored by our original work as Henderson argues, but rather studied carefully. We performed a Monte Carlo simulation with our estimated results to examine the distribution of the smoke-free premium (the increase in value of the restaurant when, all else being equal, it is in a jurisdiction with a smoke-free law). The simulation estimated that 0.3% of restaurants would lose value. So, while a smoke-free law does not uniformly increase the value of restaurants (or get to the 0% harmed that Henderson suggests), it comes exceptionally close to meeting his extreme standard.

As for Henderson’s critique of our use of cross-sectional data, we do not disagree that every study has its limitations. On any issue that is of real importance, multiple studies, using varied data sources and different approaches should be required. Happily on the issue of smoke-free restaurants there are multiple studies using various data sets and techniques which all converge to the same result that smoke-free laws either improve or do not effect a restaurant’s economic situation (Scollo et al, 2003). The same holds for bars (Alamar and Glantz 2007b).

Additionally, since our data set includes transactions in California both before and after the smoke-free law came into effect, we are able to calculate a pre-law and post-law average P/S ratio. Our sample contained 45 restaurants in California that were sold pre-law and 98 restaurants in California that were sold post law. The average pre-law P/S ratio was 0.353 with a 95% confidence interval of ± 0.007 . The average post-law P/S ratio was 0.373 with a 95% confidence interval of ± 0.003 . These results demonstrate an increase of 5.6% in the P/S ratio. Thus, if restaurant owners were bailing out of the business because of losses, as Henderson suggests, they were somehow getting a higher price for their exit from the industry than they would have if they sold their restaurant before the law was in place.

THE CHALLENGE

Prof. Henderson suggests that as restaurant owners now can see the economic benefit of being smoke-free, thus if we repealed the California smoke-free

restaurant law, we should see very few restaurants allowing smoking. While we do believe that this would be the case (as this was not designed to be a Pareto improving law, there would be some switch back), we are not ready to gamble with the health of restaurant workers to resolve an academic debate.

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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.

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