

## **ECONOMIC IMPACT OF SMOKEFREE ORDINANCES: OVERVIEW**

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***“Financial impact of smoking bans will be tremendous....Three to five fewer cigarettes per day per smoker will reduce annual manufacturers profits a billion dollars plus per year.”***

***-- Philip Morris, internal document, Bates Nos. 2025771934/1995.***

### **ECONOMIC IMPACT OF LEGISLATION**

#### **OVERVIEW**

There has been no serious controversy regarding the economic impact of smokefree laws on private workplaces. Instead, the debate on the economic impact of such laws has centered around the effect that they have on the hospitality industry, particularly restaurants and bars. The tobacco industry has consistently claimed that smokefree laws will lead to a decrease in business, usually 20-30%, with an accompanying decrease in employment. (Gambée, 1991, KPMG Peat Marwick, 1998.) However, there is no reliable independent scientific evidence to support these claims. According to the 2006 U.S. Surgeon General's Report, *“The Health Consequences of Involuntary Exposure to Tobacco Smoke,”* adopting smokefree workplace policies is a wise business decision. **The results of all credible peer-reviewed studies show that smokefree policies and regulations do not have a negative impact on business revenues. Establishing smokefree workplaces is the simplest and most cost effective way to improve worker and business health.**

In assessing the economic impact of smokefree policies and laws, the Surgeon General weighed their beneficial effect in reducing health care costs. Using a simulation model, the Surgeon General determined that if all U.S. workplaces implemented a 100% smokefree policy, it would result in “1.3 million smokers quitting, 950 million fewer cigarette packs being smoked, 1,540 myocardial infarctions and 360 strokes being averted, and **\$49 million in direct medical cost savings being realized all within one year.**” The costs saved would increase over time.

#### **RESTAURANTS AND BARS**

##### ***Early Studies***

The first comprehensive study of the effect of legislation requiring smokefree restaurants on restaurant revenues found that smokefree restaurant ordinances do not harm restaurant sales. (Glantz & Smith, 1994.) This landmark study was updated by a 1997 study, which examined fifteen cities with smokefree restaurant laws and fifteen control communities without smokefree laws. The 1997 study also looked at five cities and two counties with smokefree bar laws and similar control cities and counties without such laws. (Glantz & Smith, 1997.)

The Glantz/Smith studies found that the effects of smokefree laws were similar for all types of restaurants, as defined by the kind of alcoholic beverages (if any) served on premises. (Glantz &

Smith, 1994; Taylor Consulting Group, 1993.) The 1997 Glantz/Smith study found that smokefree bar laws do not affect revenues. The study relied on data for bars with full liquor licenses; it did not separately analyze the effects on freestanding bars and bars within restaurants. (Glantz & Smith, 1997.)

Both analyses were based on sales tax data reported to the California Board of Equalization and the Colorado State Department of Revenue. To account for population growth, inflation, and changes in underlying conditions, the researchers analyzed five ratios:

- Restaurant sales as a fraction of total retail sales.
- Restaurant sales in cities with smokefree restaurant ordinances versus sales in a comparison city with no such ordinance.
- Bar sales as a fraction of total retail sales (1997 study only).
- Bar sales in cities/counties with smokefree bar ordinances versus sales in a comparison city/county with no such ordinance (1997 study only).
- Bar sales as a fraction of all sales by eating and drinking establishments (1997 study only).

The above ratios are a better measure than simply looking at total restaurant or bar sales, as the comparisons help control for quarter-to-quarter fluctuations in the general economy and in the restaurant economy. (Glantz & Smith, 1992.) Any of the ratios would have dropped if the smokefree ordinances had led to a decrease in restaurant or bar sales in the study locations.

According to both studies, smokefree laws generally had no statistically significant effect on any of the ratios. (Glantz & Smith, 1994; Glantz & Smith, 1997.) Smokefree restaurant/bar ordinances are inherently neutral in their effect on restaurant/bar sales.

### ***Dispelling the Myths of Beverly Hills and Bellflower, CA***

The 1994 Glantz/Smith study also noted two important findings in the California cities of Beverly Hills and Bellflower, both of which repealed their restaurant ordinances following opposition organized by the tobacco industry:

1. While in effect, neither smokefree ordinance caused a drop in restaurant sales, contrary to tobacco industry claims of up to a 30% decrease. Following repeal, neither city experienced an upsurge in restaurant sales, as would have been expected if the ordinance had depressed restaurant sales; and
2. The Bellflower ordinance was actually associated with a marginally significant increase in restaurant sales during the time it was in effect. (Glantz & Smith, 1994.)

### ***Other Studies Replicate Findings***

The Glantz/Smith findings have been replicated by numerous studies. For example, a study conducted at the Claremont Institute for Economic Policy Studies examined restaurant sales tax data in 19 cities, 10 of which have partial restrictions on smoking in restaurants, and 9 of which are 100% smokefree. The study compared restaurant sales in the study cities with those in 87

cities located within a 15-mile radius of the study cities. Researchers concluded that both partial and 100% smokefree restaurant ordinances had no systematic impact on restaurant revenues. They noted that the patterns of effects in ordinance cities were indistinguishable from those of surrounding cities without restaurant ordinances. (Maroney, et al, 1994.)

Independent researchers studying the effect of smokefree restaurant ordinances in Arlington, Austin, Plano, and Wichita Falls, TX (Hayslett and Huang, 2000); Chapel Hill, NC; (Goldstein and Sobel, 1998); Dane County, WI (Dresser, 1999); Flagstaff, AZ (Sciacca and Ratliffe, 1998); Fort Wayne, IN (Styring, 2001); New York City (Hyland, et al., 1999); various counties in New York State (Hyland, 2002); and communities throughout Massachusetts (Bartosch and Pope, 2002); have all found that these ordinances have no adverse impact on restaurant sales.

## **TOURISM AND CONVENTIONS**

Studies conducted in New York City and Boston, both popular tourist destinations, concluded that neither city experienced a decline in sales following adoption of their early ordinances limiting smoking in restaurants. (Hyland, 1999; Bartosch and Pope, 1999.) Similarly, a study in California, which included the tourist-oriented cities of San Francisco and Los Angeles, found that restaurants, bars, hotels, and tourism were not adversely affected economically following implementation of the state's smokefree workplace and restaurant law. (California Department of Health Services, 1996.) A study comparing hotel revenues and tourism rates before and after passage of 100% smokefree restaurant laws in three states and six cities found that such laws do not adversely affect, and may actually increase, tourism. (Glantz & Charlesworth, 1999.)

In addition to being home to a state university, San Luis Obispo is a popular tourist destination on the California coast. In 1993, the Taylor Consulting Group found that 48% of visitors to the city knew, prior to their current visit, about a city law making all restaurants and bars smokefree, and that smokers and nonsmokers were equally aware of the law. None of the smoking visitors, almost half of whom were aware of the law before visiting, reported ever avoiding San Luis Obispo because of the law. (Taylor Consulting Group, 1993.)

The three Colorado cities of Aspen, Snowmass Village, and Telluride are popular ski resorts, which rely heavily on tourism. None of these cities experienced a drop in sales following adoption of their ordinances. (Glantz & Smith, 1994.) The Aspen Environmental Health Department reported receiving "favorable comments from visitors" about the city's 100% smokefree ordinance. And the city's own survey conducted after an earlier ordinance requiring restaurants to be 50% nonsmoking showed "no negative effect in businesses whatsoever." (Cassin, 1990.)

A 1992 report on convention business found that convention groups would not avoid a jurisdiction merely because it had enacted smokefree legislation. Forty convention groups, representing 174,840 attendees, who met in San Diego in 1991 and 1992, were asked if they would return to San Diego if a smokefree restaurant ordinance were in effect. Only one group, an organization representing 6,000 attendees from the candy and tobacco industries, said that they would not book their convention in San Diego. (Task Force for a Smoke-free San Diego, 1992.)

## CONSISTENCY OF EFFECTS IN A VARIETY OF COMMUNITIES

The Glantz/Smith studies covered a wide variety of communities. The Colorado cities of Aspen, Snowmass Village, and Telluride are popular ski resorts. The California cities include Auburn, a small Sierra foothills community; Anderson and Redding, cities in agricultural areas; Beverly Hills, an affluent urban city; Bellflower, a middle class bedroom community; Davis, a university town; El Cerrito and Martinez, small cities in highly urbanized areas; Lodi, a rural agricultural center; Palo Alto, a large suburban community and home to Stanford University; Paradise, a small semi-agricultural community; Sacramento, a large city and the state capitol; San Luis Obispo, a college town on the California coast; Roseville, a semi-rural bedroom community; and Ross and Tiburon, well-to-do San Francisco Bay communities. The 1997 study also analyzed one rural California county, Shasta, and one suburban California county, Santa Clara. (Glantz & Smith, 1994; Glantz & Smith, 1997.)

Other studies, showing no negative impact of smokefree restaurant laws, have involved cities in such different states as Massachusetts (Bartosch & Pope, 2002) and Texas (Hayslett and Huang, 2000). One study, indicating that 100% smokefree restaurant laws do not adversely affect, and may increase, tourism, involved three disparate states (California, Utah, and Vermont) and six disparate cities (Boulder, CO, Flagstaff, AZ, Los Angeles, Mesa, AZ, New York City, and San Francisco). (Glantz & Charlesworth, 1999.)

These studies demonstrate that the neutral or positive economic effects of smokefree laws do not vary depending on the size, type, or location of the communities in which they are enacted.

## GENERAL PRINCIPLES FOR ANALYZING ECONOMIC IMPACT REPORTS

Because the tobacco industry's studies showing a negative economic impact from smokefree laws are almost always poorly designed, it is important to keep in mind the differences in the methodology of those studies and the scientifically acceptable methodology used in independent studies, all of which show either no negative impact or a positive impact. A quick preliminary assessment of the quality of a study can be made by asking the following three questions:

- Was the study funded by a source clearly independent of the tobacco industry?
- Did the study objectively measure what actually happened, or was it based on subjective predictions or assessments?
- Was the study published in a peer reviewed journal? (Scollo, et. al., 2003.)

In addition, the following guidelines can help in assessing the validity and reliability of a study:

- *Sales tax data is the most reliable measure of sales.* The numbers reflect all restaurant sales in a community, not just those of a small sample of restaurants. Figures are collected using consistent methods by state agencies with no agenda regarding smoking restrictions in restaurants. Tax figures are considered reasonably accurate, because it is a crime to lie when reporting receipts to the state. (Glantz & Smith, 1994.)

- *Anecdotal information and non-random surveys are unreliable sources of information.* Surveys measure restaurant owners' impressions; they generally do not provide data to back up those impressions. (ANR, 1998.)
- *Studies should include data for several years before enactment of smokefree legislation, and for all quarters after enactment.* Many businesses, including restaurants, experience quarter-to-quarter fluctuations in sales, and long-term seasonal patterns. An observed decrease in sales data for one or two quarters may only indicate a typical downward trend in sales that occurs every year. Short-term analyses should be avoided, because it is generally possible to reach any conclusion desired by selectively picking one or two quarters for analysis. (Glantz & Smith, 1994; ANR, 1998.)
- *Figures in a vacuum are not useful.* The analysis should take into account the general economic trends in the jurisdiction, as well as the trends in the restaurant economy in the area. (Glantz & Smith, 1994; ANR, 1998.)
- *The study may have been conducted by a tobacco industry front group.* Many economic impact studies circulated by the tobacco industry were conducted by analysts paid by the industry. To find out whether the analysis was conducted by a researcher or organization affiliated with the tobacco industry, see the ANR position paper on Economic Impact Studies Circulated by the Tobacco Industry (ANR, 2003 ) or call ANR.

### **ECONOMIC IMPACT OF VOLUNTARY WORKPLACE POLICIES**

The economic impact of voluntarily eliminating smoking in the workplace relates to the cost savings an employer can expect after adopting a smokefree policy. Costs of smoking in the workplace include costs associated with the effects of smoking on the smoker: higher health and life insurance costs; higher absenteeism among smokers; lost productivity; higher workers' compensation payments; and disability and premature death of smokers. (Kristein, 1983; Marion Merrell Dow, 1991; CDC, 1996.) Eliminating smoking in the workplace will reduce these costs insofar as the prevalence of smoking and the consumption rate of smokers are reduced.

However, secondhand smoke also exacts a toll on nonsmokers in the workplace. An early study estimated that costs associated with the effects of secondhand smoke on nonsmoking employees range from \$27 to \$56 dollars per smoker per year. (Kristein, 1983.) More recently, the Environmental Protection Agency (EPA) estimated that eliminating exposure to secondhand smoke in most indoor environments would save \$35 billion to \$66 billion per year (due to premature deaths avoided and reduction in illness). (US EPA, 1994.)

In addition, there are other costs associated with smoking in the workplace, such as increased maintenance costs, which an employer can generally expect to avoid when adopting a smokefree policy. A survey of 2,000 workplaces with smoking restrictions found that 23.3% reported a reduction in maintenance costs. (Swart, August 1990.) Similarly, an analysis by the EPA concluded that implementing smoking restrictions in U.S. workplaces would reduce operating and maintenance costs by between \$4 billion to \$8 billion each year. (US EPA, 1994.) It has

been estimated that, all together, smoking in the workplace increases costs to employers by an estimated \$1,300 per year per smoking employee. (CDC, 1996.)

## CONCLUSION

There is conclusive proof that smokefree air laws do not have adverse economic consequences for restaurants and bars subject to them; moreover, there is much evidence that smokefree air laws have a positive effect on the bottom line of those businesses. Further, it is clear that workplaces that have adopted smokefree air policies reap great economic benefits from those policies. In fact, the only negative economic effect of smokefree air laws and policies is on the tobacco industry, which stands to lose billions of dollars in profits when these laws and policies are adopted. To quote Philip Morris, once again:

***“If smokers can’t smoke on the way to work, at work, in stores, banks, restaurants, malls and other public places, they are going to smoke less. Overall cigarette purchases will be reduced and volume decline will accelerate.”***

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