

## ECONOMIC LOSSES DUE TO SMOKING BANS IN CALIFORNIA AND OTHER STATES

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## Background:

Many studies have been published purporting to prove smoking bans in bars and restaurants are either good or neutral for business, and conflicting studies have also been published purporting to prove bans are bad for business. Scollo, Lal, Hyland and Glantz recently summarized many of these studies, concluding those which find no economic impact are published in the peer-reviewed scientific literature and funded by "objective" antitobacco interests, while those that do find bans hurt business are funded almost universally by Big Tobacco or its allies. *Tobacco Control*, 2003;12:13-20. **However, the objectivity of those who publish studies finding smoking bans don't hurt business is also questioned because they are funded by groups with clear and open objectives of promoting smoking bans.**

One common problem with many studies of smoking bans is that the time-span studied before and after a ban goes into effect is too small to accurately measure the ultimate impact of such bans. For example, long before state bans go into effect, many local governments have passed bans that affect business, and long before local governments pass bans many restaurants voluntarily ban smoking. For example, we obtained a copy of *California Smoke-Free Cities* Bulletin, October, 1993 which was developed with the support of the California Department of Health Services. The "Fact Sheet" summarizes that by the publication date, 8,668,235 Californians, or 27% of the population lived in an area whose local government had a 100% ban on smoking in restaurants. Further, 62 cities and nine counties had ordinances requiring 100% smoke-free restaurants, and 295 cities had ordinances restricting smoking. In addition, many more restaurants had voluntarily banned smoking in areas not covered by an ordinance. Long before the state restaurant smoking ban took effect, in 1995, many Californians did not have the option of dining in a smoking environment. Therefore, in this example, we would expect total California bar and restaurant revenue to decline years before the state ban took effect, and studies which typically only measured data collected one year before that state ban would not have measured the entire economic impact of the loss of smoking accommodations in California's restaurants.

After a ban goes into effect, some establishments violate bans, others find ways to skirt bans, and some establishments are granted exemptions. Sometimes, bans are not immediately enforced by public officials. Some establishments raise prices to offset lost business which can temporarily mask the revenue effects of bans, and some smokers continue to patronize affected establishments until they adopt other socializing habits that don't involve patronizing the affected establishments. For these reasons, measurements of the economic impact of smoking bans must also consider that some smoking accommodations can remain available after smoking bans take effect, and data must be collected longer than the one year after a ban takes effect in order to accurately measure the effect of a ban.

We further question why studies on both sides of the issue most often utilize data related to sales tax revenues collected from bars and restaurants, or employment data of those workers who work in bars and restaurants. We agree such data would be useful if the studies were exploring the relationship between smoking bans and tax revenues collected by various taxing authorities, or if they were exploring the relationship between smoking bans and employment in bars and restaurants. **Very few studies actually utilize data of gross sales received by bars and restaurants in business before and after bans take place, which would, naturally, be of most concern to those who own bars and restaurants.**

One recent claim even capitalized on the 9-11 disaster in New York City to "prove" bans don't hurt business. It claimed the city's March 2003 ban was good for business because the city's "bars and restaurants paid the city 12% more tax revenues in the first six months after the smoke-free law took effect than during the same period in 2002." Flyer: *SMOKE-FREE LAWS DO NOT HARM BUSINESS AT RESTAURANTS AND BARS*, Campaign for Tobacco-Free Kids 1400 I St. Suite 1200, Washington DC. The same period they refer to in 2002 was from March 2002 to September 2002, when many Wall Street businesses were operating in New Jersey due to the disruptive clean-up of the World Trade center site, and tourists were avoiding NYC, many fearing another possible attack. Mayor Guiliani appeared on television and asked nonessential personnel to avoid the area. Estimates were publicized in the media that the 9-11 disaster cost NYC in excess of \$50 billion in business, in late 2001 and 2002; much, certainly was lost by bar and restaurant businesses situated near the attack site. In 2003, Wall Street businesses, residents, and tourists returned to NYC and comparing 2002 to 2003, ban or no ban, cannot be valid without controlling for the effects of the attack.

Those who conduct these studies should rely on long term total bar and restaurant revenue data because they are a direct measurement of how much money was spent by customers in bars and restaurants, and such data are readily available from the U.S. Dept of Commerce. Comparing these revenues to total retail trade data controls for the spending power of the public, as evidenced by the data from the other retail sectors. For example, if a recession occurs at the same time as a ban takes effect, a researcher can adjust retail bar and restaurant revenue data for the effects of the recession using total retail sales numbers. During the period from 1990 to 1998, The U.S. Dept. of Commerce published such data through the Census Bureau's annual periodical *Statistical Abstracts of the United States*. These editions are available in the reference sections of better libraries, because these references are considered to contain the best data available. These data we will utilize are also available on the web, at [www.census.gov](http://www.census.gov). During this period, the Dept. of Commerce reported data using the Standard Industrial Classification code to define bars and restaurants. After 1998, the Dept of Commerce adopted the North American Industry Classification System and cautions comparisons with the SIC system may not be valid. This is why we limit our analysis to the period 1990 to 1998.

## States' Bar and Restaurant Revenue Losses With Smoking Bans

In 2000, the Connecticut Office of Legislative Research published a report classifying states as either smoker-friendly or smoker-unfriendly in terms of bar and restaurant smoking restrictions. A state was classified as smoker-unfriendly if bans had been imposed at the state level or if many local governments had severely restricted or eliminated smoking in bars and restaurants, even if the state had not. [www.cga.ct.gov/2000/rpt/olr/hlm/2000-r-0890.htm](http://www.cga.ct.gov/2000/rpt/olr/hlm/2000-r-0890.htm)

These states are tabulated below, along with the United States, overall, as reported by the U.S. Dept of Commerce. All data are in billions of dollars and not inflation adjusted. The 1987 data are also included to demonstrate growth was occurring in all these states prior to 1990, before smoking bans were common. After 1990, local smoking bans began to take effect in California, and smoking restrictions began to take effect in the other states, so this is the period we have chosen for study.

Table 1

	Bar&Rest retail1987	Bar&Rest retail1990	Bar&Rest retail1998	%growth 1990-98	Total Retail 1990	Total Retail 1998	%growth1990-98
CA	20.7	26.3	28.0	6.5	225	291	29
NY	10.8	13.1	13.8	5.3	124	148	19
MA	4.8	6.1	5.9	-3.3	50.7	62.6	23
VT	0.37	0.46	0.44	-4.3	4.5	6.0	33
UT**	0.78	0.94	2.1	123	10.6	19.3	82
USA	153	182	260	43	1807	2695	49
*USA-	116	135	210	56	1392	2168	56

\*USA- is the USA data minus the data from CA, NY,MA,VT, and UT; or the total of the 45 smoker friendly states and D.C.

\*\*Utah had a 14% smoking rate in 1998, so the presence of a ban there would not affect business as much as states with higher smoking rates, which typically range from 22% to 29%.

The USA experienced bar and restaurant revenue growth of 19% between 1987 and 1990 and USA- experienced growth of 16% in the same period indicating the not-yet smoker-unfriendly states contributed the extra +3% difference. Taken as combined data, bar and restaurant revenue growth in California, New York, Massachusetts, Vermont, and Utah exceeded the national trend.

The USA experienced bar and restaurant revenue growth of 43% between 1990 and 1998 and USA- experienced growth of 56% in the same period indicating the now smoker unfriendly states contributed the loss of -13% difference. Taken as combined data, bar and restaurant revenue growth in California, New York, Massachusetts,

Vermont, and Utah lagged the national trend from 1990 to 1998.

Except for Utah, all the smoker unfriendly states' bar and restaurant revenue growth was substantially lower than total revenue growth. Since Utah had a 14% smoking rate in 1998, demand for smoking accommodations was too weak for a ban to have much of an effect. Utah also hosted the 2002 Winter Olympics, and by 1996, the economic impact of the preparations was already contributing to the local economy, and the workers would have dined out frequently since they were temporary residents. ([www.olympic.utah.gov](http://www.olympic.utah.gov)) In the other smoker unfriendly states, bar and restaurant revenue growth under-performed total revenue growth on average about 25%, which is close to the average adult smoking rate of 21.7% in these states in 1998.

We examined the complete U.S. Dept of Commerce data set referenced in the "background" section of this article and confirmed most of the individual states not considered smoker-unfriendly by the Connecticut research report fit the pattern of business growth similar to the USA- from 1990 to 1998.

If California's bar and restaurant retail growth had kept up with the smoker-friendly states ( USA-) between 1990 and 1998, California's bar and restaurant revenue would have grown from \$26.3 billion in 1990 to \$41 billion in 1998. (26.3 X 1.56) This is a bar and restaurant revenue loss of \$15 billion for 1998 alone. However, this trend had been going on for eight years, and interpolating a linear trend on the data, we find total revenue loss for the eight-year period is \$60 billion dollars. (1/2 the base X the height)

#### Bar and Restaurant Revenue Growth in Smoker-friendly States

The U.S. Center for Disease Control publishes MMWR, a weekly update of health-related reports throughout the United States. In the June 25, 1999, edition, they published a report summarizing smoke-free indoor air laws, and as of December 31, 1998, 46 states and the District of Columbia restricted smoking to some extent, but Alabama, Kentucky, Mississippi, and North Carolina had no restrictions on smoking in any category including bars and restaurants. [www.cdc.gov/tobacco/research\\_data/legal\\_policy/ss4803.pdf](http://www.cdc.gov/tobacco/research_data/legal_policy/ss4803.pdf) ; starts on page 24

In the same manner above, utilizing the same data resources, we have tabulated the most smoker-friendly states: all data in billions of dollars.

Table II

	Bar&Rest retail 1990	Bar&Rest retail 1998	% growth	Total Retail 1990	Total Retail 1998	% growth
AL	2.2	3.3	50	26.4	39.9	51
KY	2.2	3.5	59	23.9	36.8	54
MS	1.1	1.6	45	13.8	20.8	51
NC	4.5	8.0	78	45.7	81.1	77
Ave			58			58
USA	182	260	43	1807	2695	49
USA-	135	210	56	1392	2168	56
USA--	172	244	42	1697	2516	48%

USA- is USA minus the smoker-unfriendly states from Table I, for comparison.

USA-- is USA minus the smoker-friendly states.

The most smoker-friendly states' average growth in bar and restaurant revenues matched their average total retail revenue growth of 58%. The USA-, which do not contain data from the smoker-unfriendly states from Table I, also matched their bar and restaurant revenue growth with their total retail growth of 56%. However, USA, and USA-- in Table II under-perform the smoker-friendly states because they contain the data from the smoker-unfriendly states. Thus far, the only states whose bar and restaurant revenue did not grow as fast as their total retail revenue are the states which were smoker-unfriendly ( except Utah), or total USA data and USA-- which are terms which both included the smoker-unfriendly states. Most importantly, if claims were true that smoking bans are good for bar and restaurant business, then the lack of smoking bans should be bad for those businesses. **However, we have found the lack of any smoking restriction or ban law does not adversely influence bar and restaurant revenue growth when compared to the states with reasonable smoking restrictions.**

Considering the smoker-friendly states' bar and restaurant revenue growth data, we conclude that nonsmokers do not patronize bars and restaurants less often when state or local governments don't severely restrict or ban smoking. More than 70% of adults in these smoker friendly states do not smoke, but seem as willing as nonsmokers in states with moderate smoking restrictions to patronize bars and restaurants. The four most smoker-friendly states do not prohibit any individual bar or restaurant from banning smoking, if it is what the owner determines is best for business. **It is obvious our free-market economic system, without any smoking laws at all, and leaving the smoking policy decisions in control of the owner, works to satisfy all customers.**

#### Bar and Restaurant Revenue Growth in the Border States

California is bordered by Arizona, Oregon and Nevada. All U.S. Dept. of Commerce data are in billions of dollars.

Table III

	Bar and Rest retail 1990	All retail except Bar&Res, 1990	Bar and Rest retail1998	B&R % growth	All Retail except Bar&Res, 1998	% growth
CA	26.3	198.7	28.0	6.5	262.9	32.3
AZ	2.6	23.5	6.1	135	42.9	82.6
OR	2.4	20	3.1	29.2	34.6	73.0
NV	1.0	8.6	2.7	170	19.2	123

Smoker-friendly Arizona's bar and restaurant revenue growth exceeded its other retail growth by a margin of 135 : 83, Oregon's lagged 29 : 73, and Nevada's exceeded by 170 : 123. Averaging these margins, the combined three states' bar and restaurant revenue growth exceeded all other retail by a margin of 111 : 93. California's other retail grew 32.3% from 1990 to 1998, and based on the smoker-friendly border states' average margin, California's bar and restaurant revenue growth should have been (111 divided by 93 times 32.3 =) 38.6%. Since the actual growth was 6.5%, we attribute the difference of 32.1% to local and state smoking bans.

**If California's bar and restaurant margin-adjusted revenue growth had kept pace with its border states, its bar and restaurant revenue for 1998 would have been \$36.5 billion**, or \$8.5 billion more than it actually took in. Over the time span of 1990 to 1998, California lost \$34 billion based on (1/2 base X the height) calculations. This disagrees with our earlier estimate of \$60 billion because these calculations take into account a slightly weaker overall economy in California than its border states. While directly comparable government tabulated figures do not exist for the years of 1999 to 2004, it would not be unreasonable to assume that these trends have continued and that California's smoking ban has cost the state's economy on the order of \$75 to \$100 billion since 1990.

However, this calculation may underestimate California's bar and restaurant losses because they are calculated by comparing to California's all retail except bar and restaurant growth which also would have been higher without smoking bans. This would happen if California's bar and restaurant employees and owners also lost wage growth corresponding to the 25.8% difference between all retail except bar and restaurant revenue growth and bar and restaurant revenue growth. Therefore, those owners and employees would be 25.8 % less able to contribute to all retail except bar and restaurant revenue growth than they otherwise would have been, and may have adversely affected total retail growth in addition to the \$8.5 billion loss in 1998 directly attributable to the ban. **In summary, California's smoking ban probably contributed to its overall economic problems since the late 1990s beyond the direct impact of the contribution of lower bar and restaurant total revenues.**

One should note earlier we found California and other smoker unfriendly states lagged the national trend of bar and restaurant revenue growth between 1990 and 1998. As the combined data from Arizona, Oregon and Nevada clearly show, the aggregate of these other western states did not lag the national trend. Most of California's population lives too far from the borders for California smokers to commute easily for the purposes of patronizing smoker-friendly establishments in those states. Therefore we do not believe these states benefited from California's smoking ban. Lastly, the combination of lack of opportunity for California smokers to commute and the finding of

California's under- performance in bar and restaurant revenue growth prove that when a "level playing field" environment is imposed, all bars and restaurants still lose business even in a state as large as California. **It is not possible to "trap" smokers in a ban environment and expect them to patronize establishments subject to bans as much as they did before the bans were imposed. The "playing field" of a large scale smoking ban may be level but it is far more of a level basin than a level plateau.**

#### Conclusions:

Total bar and restaurant revenue growth in California and other smoker-unfriendly states did not keep pace with those states' other retail businesses or our nation's overall bar and restaurant retail growth 80% of the time. The overall order of magnitude of the bar and restaurant retail growth losses in all smoker unfriendly states, except Utah, was about 25%.

Bar and restaurant revenue growth in states with no smoking restrictions did as well as states with reasonable smoking restrictions. Claims the public demands smoking restrictions or eliminations, if true, would have caused states with no restrictions to lose bar and restaurant revenue growth relative to other retail revenue growth.

There were no regional business conditions that could have explained the bar and restaurant revenue losses California experienced from 1990 to 1998. Although California's border states had overall retail revenue growth in excess of California's even after adjusting for the overall retail growth data, California's bar and restaurant businesses still lost growth than cannot be explained without considering the smoking bans.

Claims studies can only find smoking bans are bad for business when funded by Big Tobacco or its affiliates, or use anecdotal data are not true. We have shown smoking bans hurt bar and restaurant businesses 80% of the time using data from the U.S. Dept of Commerce. Further, most studies which find bans don't hurt business are at odds with our conclusions because they use tax revenue and employment data to determine ban effects; and fail to measure for a sufficient length of time before bans take effect and a sufficient length of time after bans take effect.

#### DISCLOSURES:

The authors, used their own time and funds to research and prepare this article. Neither has any competing financial interest in this research or the outcome of this research.

Dave Kuneman, who smokes, worked for 6 years in the 1980s as a research chemist for Seven-Up and still draws a small pension from that work. At the time of his employment Seven-Up was owned by Philip Morris. His current work and concern in this area has no connection to that employment.

Michael J. McFadden does not have any financial connections or obligations to Big Tobacco, Big Hospitality, Big Pharma, or other major players in this fight. He is a smoker, a member of several Free-Choice groups, and the author of *Dissecting Antismokers' Brains* and *Stopping A Smoking Ban*.

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