Clearing the Haze? New Evidence on the Economic Impact of Smoking Bans

By Michael R. Pakko

When making decisions about adopting smoke-free laws, advocates often give policymakers a Pollyannaish outlook in which communities can achieve public health benefits with no economic consequences. In particular, the lack of statistically significant economic effects is interpreted as indicating an absence of economic costs. Recent economic research indicates that this is a far too simplistic view of the issue.

As more communities have adopted smoke-free laws and more data have been gathered, economists have discovered new, significant findings. As an earlier article suggested, economic costs often focus on specific business categories—those that smokers tend to frequent.

Bar and Restaurant Employment

Two papers, one by Ryan Phelps and the other by Scott Adams and Chad Cotti, have used data available from the Bureau of Labor Statistics to examine the employment effects of smoking bans. Using nationwide county-level data, these two studies examine the changes in employment at bars and restaurants after communities adopt smoking bans. Neither study finds significant employment changes at restaurants, on average, but both find statistically significant employment declines at bars, with loss estimates ranging from 4 percent to 16 percent.

Adams and Cotti also examine some additional factors. For communities in states with a higher ratio of smokers to nonsmokers than the national average, employment losses at bars were significantly larger, and the employment changes at restaurants went from a small positive effect to a small negative effect (in neither case, statistically significant). Climate also affected restaurant employment. Restaurants in warm climates fared better than those in cooler climates. The authors suggest that the reason for this might be that restaurants in warmer climates can more easily provide outdoor seating where smoking is not prohibited. Restaurants that suffered the dual curse of being in regions with colder climates and a high prevalence of smokers suffered statistically significant employment losses, on average.
California Dreamin’

Another recent economic study examines taxable sales receipts of bars and restaurants in California, the home of the smoke-free movement. Because California communities passed some of the nation’s first smoke-free laws, much of the early evidence on the subject was based on these data. The experience of California also provides a case in which a statewide smoking ban was superimposed on a patchwork of local smoke-free laws, providing useful variation in the coverage and jurisdiction of smoking bans.

Economists Robert Fleck and Andrew Hanssen analyzed quarterly restaurant sales data for 267 California cities over 25 years. They find that the measured impact of smoking bans differs between local bans and the statewide ban. The authors find a statistically significant 4 percent decline in revenues associated with smoking bans.

When they estimate the effects of the statewide ban and local bans independently, they find that the measured decline in restaurant sales is attributable to the statewide ban on cities without local bans. The measured effect of the statewide ban is nearly 4 percent, and significant. The independent effect of local smoking ordinances is estimated to be very small and is not significant. These findings are consistent with the interpretation that locally originated smoking bans have little effect, but smoking bans that are imposed on a community by a higher jurisdiction can have a detrimental economic impact.

The authors also find that cities that adopted smoke-free laws were systematically different from those that did not. The authors find that sales growth predicts smoking bans, rather than the other way around. This “reverse causality” calls into question many earlier findings, and it poses problems for using data from California in drawing inferences about the economic impact of smoking bans elsewhere.

The Role of Economic Research

Economic effects of smoke-free laws may be difficult to identify and interpret, but analysis suggests that at least some businesses do suffer costs. When they consider passing smoking bans, policymakers should study evidence both from public health professionals and from economists.

Michael R. Pakko is an economist at the Federal Reserve Bank of St. Louis. To see more of Pakko’s work, go to http://research.stlouisfed.org/econ/pakko/index.html

From the Chair
Julie Heath

As we close out another year we are faced with some changes on our faculty. I am sorry to say we are losing one of our assistant professors, Dr. Vova Lugovskyy, who has accepted a position at Georgia Tech. Vova was a tremendous asset to the Department and we will miss him. On the brighter side, we will be welcoming a new faculty member, Dr. Alex Nikolsko-Rzhevskyy, a recent graduate of the University of Houston. Dr. Nikolsko-Rzhevskyy specializes in econometrics and macroeconomics, and has done extensive work with the Dallas Federal Reserve Bank.

The Department continues to attract new undergraduate majors, including a significant number of high-ability students. Our graduates are successful in finding challenging jobs and assistantships in top graduate programs. Our faculty continue to publish in top-ranked journals, excel in the classroom and get external grants.

We are pleased that we have received funding for two new scholarships. The first, the Walter P. Armstrong, Jr. Scholarship, will be awarded annually to an economics undergraduate student. This is an endowed scholarship, allowing us to support a student every year. The other, the Nathan Associates Fellowship, provides support to a Ph.D. student. Nathan Fellows receive extensive applied experience, working with professional economists on forensic cases.

Funding for students is a priority for the Department, allowing us to attract extraordinary students. If you are interested in more information about how you can help us in this regard, please contact me.

Thank you for your support, and have a good summer.


**SpOttLigHt oN...**

**BRIAN JONES**

*BBA Economics, 1987; MBA, 1988*

**What was your first job after graduation?**

The job market was not that great in 1988 so I signed on with a temporary agency who sent me to Delta Life and Annuity where I did research and special projects for the marketing department. While working at Delta Life and Annuity I also taught night classes at the University.

**What is your current job?**

President and Senior Consultant with Consulting Services Group, LLC. CSG is a Memphis based Registered Investment Advisor, consulting on approximately $36 billion in assets across the U.S. CSG was founded in 1988, and employs 66 people.

**What do you like best about your job?**

As president of the firm I enjoy the people I work with – CSG has always had a family oriented culture because many of us have known each other for a long time. In fact, two of my partners Kurt Voldeng, Robert Longfield and I lived in the Sigma Chi house at the same time and all graduated from the Fogelman College of Business. Also, investment consulting to large institutional clients is like teaching – only you are in a conference room instead of a class room; and there is a great deal of satisfaction in helping clients design and implement investment strategies that can include everything from fixed income to private equity to emerging market equity.

**Why were you an economics major?**

I have always been interested in politics and history, but I did not want to major in either one – Economics brings the two together in the world of business. Also, in the mid 1980’s most everyone was majoring in Finance or Marketing and I wanted to be different.

**What were some of your favorite courses or professors?**

Dr. David Ciscel had the single biggest impact on my academic career at the University – both in undergraduate school when he was the chairman of the Economics Department, and in graduate school as well where I was his graduate assistant when he became Associate Dean. Although we tended to disagree on matters of politics, he was a great mentor who gave me confidence and challenged me to be more than just a “widget salesman.” My favorite class was Dr. Ciscel’s senior seminar where we tackled John Kenneth Galbraith’s The New Industrial State – anybody that can make that not only bearable but enjoyable is a great teacher! I still have my copy – complete with a faded copy of Dr. Ciscel’s article on “Galbraith’s Planning System as a Substitute for Market Theory” from the Journal of Economic Issues, June 1984.

**How has having an economics degree benefitted you?**

Why should a student major in Economics – that’s easy – everything boils down to Supply and Demand — the rest is just marketing.

**What advice would you give students who would like to enter your field?**

You have to love being a student of the global economy and financial markets where the landscape is constantly changing - just ask the folks at Bear Stearns.

---

Kyle Carlson, BA Econ Alum. Kyle has accepted a position as a research associate for the Federal Reserve Bank in Boston. This is a highly competitive position and Kyle was chosen from a pool of candidates that included economics graduates from across the country. Kyle received the Outstanding Undergraduate Student Award from the Department last spring and received his BA degree in December of 2006.
ODE Honor Society Inducts New Members

The following students were inducted into Omicron Delta Epsilon, the honor society in economics at the annual ODE luncheon on April 16, 2008:

Brandon Jones       Rick Jordon
Mathew Wallace     Tiffany Wyles
Michael Rahija     Stephanie O’Mary
Sean Rogers

Undergraduate students must have an overall GPA of 3.0. In addition, students must have a 3.0 average in at least 12 hours of economics courses. Graduate students must have at least 9 hours of economics overall, with 6 hours of economics and a 3.0 average.

Stephanie O’Mary, Undergraduate Student. Stephanie received the 2008 Outstanding Undergraduate Student Award from the Department.

Riham Ishak, MA Student. Riham is the recipient of the 2008 Outstanding Graduate Student Award, Department of Economics.

Debjani Kanjilal, Ph.D. Student. Debjani has been awarded the Barbara Tuckman Memorial Fellowship for 2008-09. This fellowship recognizes overall achievement by a graduate student in the Department.
RHAMY ALEJEAL  
BBA Economics, Financial Economics Concentration

Where did you go to high school?

I attended Bartlett High School where I was heavily involved in the Theater program. Economics was a subject taught for one semester and I took it from Mr. Marino.

What made you decide to be an economics major?

As my senior trip a few classmates and I went to Washington, DC as part of the “Close Up” program for high school students. In it we met with students from all over the country and had meetings where we discussed policy issues. We were escorted by Mr. Marino and during that time we all got to know each other a little better. I was fascinated by the economic arguments that were the basis for many of our discussions. When I came to college I was torn between Economics and Physics as majors, but finally settled on Economics because it was more applicable to my chosen career path as an entrepreneur.

What do you plan on doing after you graduate?

I will likely graduate in spring of 2009, only two semesters from now. After that I am not sure exactly what I want to do. I have a budding Real Estate company that somewhat ties me to the area, not to mention all the friends and family here. I will pursue a graduate degree of some kind, either a masters in economics, or a law degree, but I am not at all sure where that will take place.

What has been your favorite course(s)?

I really enjoyed Dr. Hussey’s Intermediate Microeconomics. The material was interesting, and Dr. Hussey made the class very entertaining. This semester Dr. Smith’s Macroeconomics is also a lot of fun. The things we learn give really great insight into current events, and make excellent out of class discussion. It also gives me insight into current government policy that allows me to be a much more active and informed citizen.

Why do you think studying economics is important?

Economics is a primary factor in all of our lives. It shapes government policy, private business, and our own everyday choices. A deeper understanding of economics gives me an advantage in business that translates directly to my bottom line. It is also a very academic pursuit that gives me the critical thinking and logic skills to take up pretty much any challenge and master it.

ECONOMICS PROF WINS TOP RESEARCH AWARD

Dr. Bill Smith, Professor, is a recipient of the 2008 Alumni Association Award for Distinguished Research in Social Sciences, Business and Law. Dr. Smith received the Distinguished Teaching Award in 2006.

DID YOU KNOW?

The Department of Economics has a higher proportion of majors who are high-ability students than any department in the FCBE.
INCREASE YOUR MARKETABILITY!

University of Memphis students have a unique opportunity to increase both their chances of getting a job and their starting salaries. The University has the only undergraduate SAS Certificate Program in the country. SAS is a programming language that many local (and national employers) use. Obtaining a Certificate only requires two courses (and a basic statistics prerequisite) and will enhance your employment (or graduate school) prospects. For Economics students, one of these courses (4530) will count as an elective. This is an outstanding opportunity for Economics students to supplement the analytical skills they already receive. Employers look for individuals who can think critically. Adding this Certificate to your resume gives you a decided edge in this competitive environment. For additional information, see the brochure at https://umdrive.memphis.edu/g-aatech/public/sas-brochure.pdf.

NEW SCHOLARSHIP

Undergraduate Economics majors can apply for a new scholarship, the Walter P. Armstrong, Jr. Scholarship. Students should be rising juniors or seniors with at least a 3.25. The scholarship is $1500/yr. To get an application form contact Grayson Pruitt (gpruitt@memphis.edu; 218 FCBE, 678-3405). Deadline is May 1.

PRIMER ON ECONOMIC REPORTING

The Center for Economic Education is conducting a Primer on Economic Reporting for area journalists on May 1. This day-long seminar will focus on three topics: commodity prices, credit, and the changing role of the Fed. Journalists will learn the context of today’s top stories, as well as how to analyze government data. This event is sponsored by the Scripps Howard Foundation, Informa Economics and First Tennessee. The Federal Reserve Bank of St. Louis—Memphis Branch is a supporting sponsor.

Undergraduate Student Gets Top Prize

David Benson received an award for the Best Student Paper at the Academy of Finance and Economics meetings in Nashville in February. His research paper, “"Incompetent Subsidization and Inefficient Consumption: A Lump Sum Analysis of the Health Care Expenditures of America's Elderly”, was also accepted for presentation at the Midwest Economic Association meetings in Chicago in March. David has been mentored in this project by Drs. Hussey and Okunade. David is a double major in economics and math.
### Intermediate Microeconomic Theory — ECON 3310  
**TR 11:20-12:45**

Learn more about how individuals and firms make optimal decisions, especially with respect to resource allocation. Emphasis on application of economic analyses to public policy issues. This is a required course for majors, offered every fall. The prerequisite is principles of microeconomics. This class is taught by Dr. Hussey.

### Economics of Sports — ECON 3123  
**TR 9:40-11:05**

Is equal team playing skill the talent distribution that maximizes fan welfare? Does the player draft system help to equalize team playing strengths? What is the rationale for cities building stadiums at tax payers expense and renting them to teams for $1? Elevate your sports expertise beyond “bar talk” and be able to analyze sports analytically. Taught by Dr. Julie Heath

### Monday and Banking — ECON 3610  
**M 5:30-6:55**

What is the relationship between the central banks and the other banks in the U.S.? Outside of the U.S.? How do the deposits and earnings operations of banks fit into the larger economy? This class is taught by Mr. Ed Genry, the Executive Vice President of Triumph Bank. Principles of Macroeconomics is the prerequisite.

### State/Local Public Finance—ECON  
**TR 2:40-4:05**

This course examines the spending and taxation decisions faced by state and local governments. Since almost half of all government spending in the U.S. comes from state and local governments, an understanding of state and local government issues and concerns is imperative in studying public economics. The prerequisite is principles of microeconomics. This course is taught by Dr. Campbell.

### International Development from an Ecological Perspective—ECON 3580  
**MW 2:20-3:45**

When economies grow, what happens to the environment? How do economies make the choice between economic growth and environmental exploitation? This course looks at these questions in both developed and less developed countries. Principles of macroeconomics is the prerequisite for this class taught by Dr. Fung.

### Programming Concepts and Techniques — ECON 4520  
**T 5:30—6:55**

SAS syntax from the basic to more advanced statistical concepts. Techniques of good programming as well as tips learned from the pros. Taught by Jim Clubb of FedEx

### From Data to Information — ECON 4530  
**T 1:00—4:00**

Capstone course in Certificate in SAS Data Analysis and Programming, focusing on application. Procedure for taking raw data to analysis through final presentation. Case studies will also be presented and analyzed. PREREQUISITe: ECON 4520. Taught by Dr. Donhardt