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CONFUSING, MISLEADING CDC FIGURES ON ECONOMIC COSTS OF SMOKING

On April 12, the Centers for Disease Control and Prevention released a widely-quoted report entitled *Annual Smoking-Attributable Mortality, Years of Potential Life Lost, and Economic Costs - United States, 1995-1999.* The report contained new estimates of the cost of smoking in terms of higher medical bills and what it calls "lost productivity". The "productivity" figures are really lost "production", i.e., output and income of smokers due to early death.[1] There are several problems with the study and the interpretation usually accorded such figures by the media.

The CDC report should not be regarded as a good piece of economic analysis nor as a guide to social policy. If people die, then the output they would have produced and the income they would have received for producing it are lost. It is important to bear in mind, however, that this loss of output and income is borne by the smoker and his family, not by "society" or "the economy". The CDC report does not make this clear. A worker or saver is paid for what he adds to output. His pay or investment income entitles him to buy as much of other people's output as he himself has produced. If he does not produce, he loses a corresponding claim to other people's production, and the loss is his and his family's, and no one else's. He pays taxes, of course, in effect turning some of his output over to pay the people who provide government services, and if he dies, the tax revenue dies with him. But, at least on average, the taxpaying public is supposed to receive services equal to the value of the taxes they pay. Unless the government sector is systematically "exploiting" the rest of the population, this is a wash.

Smoking entails health costs. Smokers clearly spend more on medical care at the times when smoking makes them ill than they would if it did not affect their health. Insofar as they pay for this care with their own money, it comes at the expense of the family's consumption of other products, and takes nothing from other people. Of course, the medical outlays may be covered by insurance. In well-run insurance plans provided by private carriers, smokers are often charged higher premiums than non-smokers, and the smokers bear the cost of smoking.

Smokers die earlier than non-smokers. Consequently, they draw smaller Social Security retirement benefits than non-smokers. Smokers do incur Medicare costs earlier than non-smokers, but smoking substitutes for other causes of death that also involve high Medicare costs. On balance, most studies find that smokers cost the government less in terms of health care outlays than the sum of what they save the government in unclaimed retirement benefits and pay the government in tobacco taxes at existing tax rates.[2]

The CDC study noted that such effects of smoking as "disability, absenteeism, excess work breaks" etc, which are more related to what we usually think of as "productivity", were not measured. Indeed, it would be hard to estimate them. (And to be fully objective, if one were to try to measure the effect of smoking on "productivity", one should note that many smokers consider nicotine to be a stimulent and would say that

smoking makes them more alert and more "productive". That is not to say that taking nicotine is a good thing or that smoking is a good way to take it.) In fact, even if smoking results in higher absenteeism, excessive work breaks or other negatives for job performance, the costs will generally be borne by the worker, not the employer. They will be imposed in the form of lower pay, fewer step increases or promotions, or other penalties. For the self-employed, the case is even clearer. A dentist, lawyer, or home contractor who is out sick and cannot see patients or clients or take on repair work, or who offends potential customers, will clearly suffer a reduction in income.

In other words, just as the enjoyment of smoking accrues to the smoker, the costs of smoking, including the income spent on tobacco and any associated harm from illness or shortening of life, are borne by the smoker and his family. (Claims regarding "second hand smoke" are highly controversial, and the CDC study does not quantify them.) In economic jargon, the costs of smoking are overwhelmingly "internalized". The costs are not "externalities" that are imposed on third parties. There is no added cost of smoking in terms of lost economic output to the rest of the country. Any claim to the contrary is bad economics.

While the CDC report does not explicitly claim that the costs of smoking are shifted from smokers to the rest of society, neither does the report make it clear to an unwary reader that the figures represent costs to the smokers. Several previous studies have also hinted at a "social cost" of smoking by presenting such figures in a similarly suggestive manner. These include two studies by the Congressional Office of Technology Assessment, and a more blatant Treasury report commissioned by then-Secretary of the Treasury Lawrence Summers in 1998 in support of a subsequent talk he gave to justify a proposal for a higher cigarette tax.[3] These earlier studies can most charitably be described as disingenuous at best, and deliberately misleading at worst.

Smoking is on the decline, but it has not collapsed. The CDC and the media may be disappointed that direct appeals to smokers to quit for their own good have had limited success. While a healthy lifestyle (not smoking, eating right, exercising regularly, etc.) has benefits, it also involves sacrificing some pleasurable activities. Although many people find it tempting to tell others what to do "for their own good", that is not an appropriate role for government in a free society. It would be wrong, therefore, to misrepresent the economic statistics in the CDC report as a cost to non-smokers to provoke them into supporting political action to force smokers to quit. The CDC figures should not be used to justify higher tobacco taxes or public ordinances suppressing smoking by consenting adults.

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Endnotes

1. The CDC uses the term "productivity", which is output per hour worked, when it is really referring to "production" or "output" or "income", which is the total amount of goods and services produced.

2. For a broad overview of the economic argument and a review of the literature, see: Stephen J. Entin, "There's No Economic Argument for a Higher Cigarette Tax," *IRET Policy Bulletin No. 72*, April 30, 1998. Specific studies of note:
Jane G. Gravelle and Dennis Zimmerman, "Cigarette Taxes to Fund Health Care Reform: An Economic Analysis," Congressional Research Service, March 8, 1994.

Willard G. Manning, Emmett B. Keeler, Joseph P. Newhouse, Elizabeth M. Sloss, and Jeffrey Wasserman, "The Taxes of Sin: Do Smokers and Drinkers Pay Their Way?" *Journal of the American Medical Association*, 261, March 17, 1989.

Robert E. McCormick, Robert Tollison, and Richard E. Wagner, "Smoking, Insurance, and Social Cost," *Regulation*, Summer 1997, pp. 33-37.

Lorraine Mooney, "Smoking Out Bad Science", *The Wall Street Journal*, March 19, 1998, p. A18.

Robert D. Tollison and Richard Wagner, "Smoking and the Cost of Medicare and Medicaid," Center for the Study of Public Choice, George Mason University, unpublished paper.

W. Kip Viscusi, "From Cash Crop to Cash Cow," *Regulation*, Summer 1997, pp. 27-32.

W. Kip Viscusi. "Cigarette Taxation and the Social Consequences of Smoking," in *Tax Policy and the Economy*, 9, pp. 51-101, James Poterba, ed. (Washington DC: National Bureau of Economic Research, 1995).

3. Office of Technology Assessment, *Smoking-Related Deaths and Financial Costs* (Washington DC: Office of Technology Assessment, 1985); and Office of Technology Assessment, *Smoking-Related Deaths and Financial Costs: Office of Technology Assessment Estimates for 1990* (Washington DC: Office of Technology Assessment, 1993); Office of Economic Policy, Department of the Treasury, *The Economic Cost of Smoking in the United States and the Benefits of Comprehensive Tobacco Legislation*, Washington DC, 1998 and Lawrence H. Summers, "The Economic Case for Comprehensive Tobacco Legislation," remarks to the George Washington School of Health, March 25, 1998.