Analysis of the smoking ban effect

“ On the 26th March 2006, smoking was banned in enclosed public places in Scotland.” This essay will consider different aspects of this ban, including a consideration of the extent to which the theory of externalities can be used to justify government legislating on smoking, an analysis and explanation of the short run impact of the smoking ban on market for alcohol sales in pubs and clubs, the market for cigarettes and the market for chewing gum and, finally, an explanation on whether the smoking ban would have any effect on the production possibility curve. All of this will create an economic insight into the effects of the 26th March 2006 smoking ban.

Firstly, the theory of externalities will be considered as externalities are seen in almost every area of economic activity, therefore are also important to analyzing the effects of the smoking ban in enclosed public places. Garratt and Sloman (2010, p. 517) define them as “ costs or benefits of production or consumption experienced by society but not by the producers or consumers themselves. Externalities are likely to cause market failure if the full social costs and social benefits of production and consumption are not taken into consideration. Social cost includes all the costs of production of the output of a particular good or service. We include the external costs arising, for example, from pollution of the atmosphere. It is therefore important to consider how this theory of externalities justifies the government legislating on smoking. Cigarettes in the UK have an enormous taxation rate – in 2009, 10. 5 billion pounds were raised in tax revenue from tobacco for the UK government. People usually tend to smoke a lot when they are drinking so if they are not allowed to smoke inside the clubs and bars, there is not as big as a demand as if people were allowed to smoke in

bars and clubs. This means that the government loses the money it could have raised from the tobacco taxation if there was a bigger demand. The money that has been raised from putting taxation on tobacco is usually invested in healthcare as a public good so it can be perceived as an external benefit. However, government this way avoids the damage of issues that are caused by smoking, such as less productive workforce and the vast amount of money that has to be put into healthcare because of the health issues caused by smoking. Therefore it can be argued that the government loses money but at the same time invests in the long-run welfare and healthcare of the people who are living in Scotland. Some benefits might include women smoking less, therefore living longer or having healthier babies. These benefits of the government legislating on smoking might seem insignificant now because it could be argued that people who smoke, will find a way to smoke anyway, especially with bars and clubs investing in comfortable outdoor smoking areas, but the external benefits of the smoking ban are much more important – the reduction of secondary smoking health costs (non-smokers now do not have to suffer from other people smoking indoors), especially when the smoke that accumulates indoors only contributes to damaging health to people who are inside enclosed places. Also, not being able to smoke inside discourages more people from smoking or they smoke less frequently because a lot of people just can’t be bothered to go outside. This is the case especially amongst young people where smoking is still considered a social activity so if they can’t smoke in bars and clubs – they won’t. Also people are discouraged from smoking in a way that doesn’t affect the black market which is good because then the government does not have to spend extra money on dealing with the black market while spending huge

amounts of money improving the health of the people. Taking all these arguments into account, the theory of externalities can be used to justify government legislation on smoking.

An analysis and explanation of the short run impact of the smoking ban on market for alcohol sales in pubs and clubs, the market for cigarettes and the market for chewing gum is also important to consider. Supply and demand is perhaps one of the most fundamental concepts of economics and it is the backbone of a market economy. Demand refers to how much quantity of a product or service is desired by buyers. The quantity demanded is the amount of a product people are willing to buy at a certain price. Supply represents how much the market can offer. The quantity supplied refers to the amount of a certain good producers are willing to supply when receiving a certain price. The relationship between demand and supply is all about the allocation of resources. In market economy theories, demand and supply theory will allocate resources in the most efficient way possible. The law of demand has to be considered as well because it helps to explain how the ban of smoking in clubs and bars affect the market of alcohol sales in these places, the market for cigarettes and the market for Nicorette chewing gum. Firstly, the market for alcohol sales in terms of supply and demand will be analysed to see what impact the smoking ban has on this market.

The market for alcohol sales in pubs and clubs increases, because, first of all, a lot of non-smokers who did not come to pubs and clubs, or came very rarely, just because they did not like the effects smoking had on them – smelly clothes, the air filled with smoke, etc., will now come to the pubs and bars. Secondly, smoking is a social activity and if people are not going to

socialise while smoking, they will do that while replacing the cigarette with an extra drink. Thirdly, cigarettes effect how drunk people are so if they are not able to smoke while drinking then they are going to drink more to make up for the fact that they could have been more drunk if they smoked. Therefore, the effect is that demand increases (D1 shifts to D2), when supply stays the same so the price increases as well (P1), then as soon as there is more demand than supply , the supply increases too and the price goes down again (P2).

The effect of banning smoking in enclosed public spaces on the market for cigarettes also has to be analysed. The market for cigarettes, even though cigarettes are the inelastic demand, the demand will slightly decrease as people usually tend to smoke more when they drink and a lot of people, who don’t smoke daily, do smoke when they are drinking, especially on nights out with friends at pubs and clubs. Therefore, as the demand for cigarettes decreases (D1 shifts to D2), the supply remains the same but the price goes down (P1). Because there is not as much demand, the supply decreases as well (S1 shifts to S2) and the price goes up (P2).

Thirdly, the effect of the smoking ban on the market for Nicorette chewing gum will be considered. The market for Nicorette chewing gum will face a bigger demand as people will find it hard not to smoke when having a night out, so they will try to replace smoking with the Nicorette chewing gum. In the past, increases in the real value of taxation on cigarettes has had had little effect on demand from smokers because demand has been inelastic. However, there are signs that this all is about to change. Sales of nicotine replacement therapies such as patches, lozenges and gums have boomed by

nearly 50% over the past five years to around £97 million. This means that the even more people are opting for cigarette replacements, such as the Nicorette chewing gum, instead of cigarettes. Therefore, the demand goes up (D1 shifts to D2) and the supply stays the same, while the price goes up as well (P1). As there is not as much demand, the supply goes down (S1 shift to S2) and the price goes up (P2)

As it can be seen from these graphs, the smoking ban has different impacts on different markets. From the analysis, it can be seen that the smoking ban is making an effect on how much people in Scotland are smoking compared to how much they were smoking before, and hopefully this will eventually lead to a much healthier Scottish society.

Lastly, an explanation on whether the smoking ban would have any effect on the production possibility curve for the Scottish economy will be given. The production possibility curve is a representation of the alternative combinations of the amounts of two goods or services that an economy can produce by transferring resources from one good or service to the other. This curve helps in deciding what quantity of a non-essential good or a service an economy can afford to produce without jeopardizing the required production of an essential good or service. In the United States of America smoking ban would indeed have a very big impact on the production possibility curve as many communities there, rural in particular, are dependant on tobacco because of the thousands of tobacco farmers, manufacturers, and other businesses that produce, distribute, and sell tobacco products. Many tobacco farmers in the United States lack good alternatives to tobacco, and they have tobacco-specific equipment, buildings, and experience. However, this

the ban would not have a significant effect on the production possibility curve for the Scottish economy, as there are not so many people in Scotland involved in the tobacco business and the possible expenses of not introducing the smoking ban would be much greater – the expense of treating diseases caused by smoking but also other costs such as working days lost and social security payments. Because the smoking has been banned, the government has less opportunity costs to considere and this can be justified because the smoking ban is essentialy in the interests of the Scottish people.

This essay has looked at different aspects of the effects that the smoking ban in enclosed places in Scotanld has had on the economy and differnet markets. The extent to which the theory of externalities can be used to justify government legislating on smoking was considered, an analysis and explanation of the short run impact of the smoking ban on market for alcohol sales in pubs and clubs, the market for cigarettes and the market for chewing gum were provided and, finally, an explanation on whether the smoking ban would have any effect on the production possibility curve was given. The smoking ban really has had different kinds of impacts on the Scottish economy, which at the end of the day, can only be good as Scotland is now on the path of raising healthier generations.