

Adding up the cost of a puff



The Price of Smoking

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The Price of Smoking estimates the annual total cost of smoking in the US to be \$3.5 billion or \$39.66 per pack. This book presents the most comprehensive estimate of the cost of smoking to date, information that is highly relevant to public health policy as well as litigation against the tobacco industry.

In contrast to most earlier analyses, which estimated the costs of smoking borne during a given year, the authors present an original analysis that estimates total cost of smoking to a 24-year-old over his or her entire lifetime. The life cycle approach provides a more complete analysis of the cost of smoking than the earlier cross-sectional approach because it provides the total cost that an individual smoker imposes on him- or herself and others. The most interesting aspects of the cost calculations relate to three controversies that the authors discuss.

The first controversy is which costs the smoker bears himself or herself (private costs) and which costs he or she imposes on others (external costs). This issue is important because economists believe that consumers consider only private costs in deciding whether to purchase a product, and so the laws of supply and demand in the marketplace can be expected to set the monetary cost of a product (in this case, cigarettes) without government intervention. External costs, in contrast, are borne by society as a whole and so government action (such as taxation or regulation) is economically justified to either reduce these external costs or 'internalize' them as part of the price borne by the consumer.

Economists also typically assume that all costs borne by the smoker's immediate family are all private costs. The authors choose an 'agnostic' view on this issue by separating the costs imposed on a smoker's family from both the private costs of the smoker and the external costs of society by labeling them 'quasi-external' costs. This approach is a reasonable compromise between the two sides of the argument; policymakers can choose whether the costs borne by a smoker's child should be considered private or external when creating public health policy.

Literature shows that parents who smoke are more likely to have children who smoke, and that societal images, such as smoking in the movies, have

a considerable impact on whether a teen smokes. Given these causal factors, a portion of an individual's private cost should be correctly labeled as quasi-external (those costs associated with the increased probability of smoking attributable to a smoking parent) and a portion should be labeled as external (those costs that are associated with the increase in probability of smoking as a result of societal influences).

The second controversy discussed by the authors is whether and how the savings to Social Security because of early mortality should be included as a benefit to society from smoking. The authors show how lower life expectancy from smoking is advantageous to Social Security because the benefits paid to an average smoker are lower than the benefits paid to a longer-living nonsmoker. The authors also find, however, that smoking reduces revenues paid to the Social Security Trust Fund because of smokers' lower wages and productivity. The argument against including these costs, as the authors state, is that it is "ghoulish" to include premature death as a benefit. In the interest of economic completeness, however, they do so.

This choice is problematic, however: all of the published work the authors cite on the 'death benefits' to Social Security was done by researchers with ties to the tobacco industry. There is a well-established link between tobacco-industry funding and research results that are favorable to the industry. Although we applaud the authors' desire to include all previous literature, the links between the tobacco industry and the authors of these studies should have been noted.

The third controversy discussed by the authors is whether the cost estimates imply that smokers behave rationally (that is, they choose to smoke and set their level of consumption based upon an optimal weighing of all future costs and benefits of continued smoking). Whether smokers behave rationally is an ongoing debate in economics. The authors state that their cost estimates support the conclusion that smokers are not making a forward-looking optimal choice (that is, they are not rational decision makers) because the costs are so high it is unlikely that the benefits outweigh the costs. The authors then take the reader through some mental gymnastics to argue that, for at least a portion of smokers, smoking is a rational choice. The authors do not touch on the growing literature that has illustrated problems with the so-called rational addiction model, and instead compare the costs of smoking to the costs of watching television. Because their empirical results support the view that smokers are not fully rational individuals, it is surprising that the authors have included a defense of rational addiction in their book.

One of the notable contributions the book makes is its treatment of secondhand smoke. The authors are the first to treat the costs associated with secondhand smoke in a comprehensive way. The innovation is a promising, but limited, step. The primary limitation in their analysis is that it only includes the effect of secondhand smoke on other family members, particularly children. There is a well-developed literature stating that secondhand smoke in the workplace imposes health and other costs on coworkers and that the levels of exposure in workplaces is higher than in homes. Leaving these effects out of the analysis leads to a substantial underestimate of the total costs of both secondhand smoke and smoking.

The book provides new and useful information to policymakers as to the true cost of smoking. Allowing policymakers to see the difference between the internal and quasi-external costs is a significant advancement and one that should have real effects on policy decisions.

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