

PUBLIC POLICY SOURCES

Number 40

The History of Tobacco Regulation Forward to the Past

Filip Palda

Preface by Patrick Basham

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Public Policy Sources is published periodically throughout the year by The Fraser Institute, Vancouver, British Columbia, Canada.

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Editing and design: Kristin McCahon and Lindsey Thomas Martin

Printed and bound in Canada.

ISSN 1206-6257.

Preface

Throughout North America, governments—federal, provincial, state, and local—have declared tobacco to be public health enemy Number 1. What should public policy be toward tobacco, a legal product that remains a habitual pleasure for one Canadian in four? To answer this question, The Fraser Institute invited leading scientists, public-policy experts, and journalists to meet in Ottawa on May 13, 1999 to debate the costs and benefits of tobacco regulation.

This seminal event produced several important critiques of past and present government policies towards both the companies that produce tobacco products and the consumers of these products. This publication is the first of a number of Public Policy Sources highlighting specific aspects of the debate over tobacco regulation.

I am frequently asked why The Fraser Institute is interested in this issue. In my judgement, assessing the regulation of tobacco entails an examination of several important public-policy questions. These include: the enforcement of the rule of law; the importance of property rights; the question of individual responsibility; issues of freedom of speech; and the personal freedom to trade longevity knowingly for pleasure.

Opinions about the respective merits and demerits of tobacco, smoking, and the appropriate amount of government intervention in this sphere are anything but new. It was 400 years ago, in 1598, that the poet Ben Jonson complained: “Tobacco ... is good for nothing but to choke a man, and fill him full of smoke and embers.” Almost 300 years later, in 1891, the writer Oscar Wilde retorted: “A cigarette is the perfect type of a

perfect pleasure: It is exquisite and it leaves one unsatisfied. What more can one want?”

Today, the respective arguments are more technical, more empirically based, and more financially and politically explosive than they were in either Jonson’s or Wilde’s day. However, contrary to conventional wisdom, the private—if not the public—argument remains just that, an argument.

Nevertheless, for two decades, a significant amount of political influence has been exercised throughout both Canada and the United States in support of increased regulation of smoking. The law has prohibited smoking on all domestic commercial flights. At the provincial, state, and municipal level, there have been a multitude of regulations imposed that restrict smoking in both public and private establishments and one jurisdiction after another has steadily escalated excise taxes on cigarettes.

The stimuli for increases in governmentally imposed burdens on smokers are many and varied. They include well-intentioned individuals who consider government efforts necessary to minimize the economic, social, and health costs borne by both smokers and non-smokers. They also include policy makers alert to opportunities to obtain more tax revenues at minimum political risk.

To the casual observer, tobacco regulatory policy appears to have been based for the last 20 years upon two assumptions: first, that tobacco advertising leads young people to experiment with tobacco; and, second, that the addictiveness of tobacco turns young people into regular smokers. From these two assumptions flow the following five tobacco-control instruments that dominate

respective provincial and federal government agendas: (1) educational programs describing the health risks associated with tobacco; (2) the banning of tobacco advertisements and promotions; (3) enhanced package warnings; (4) tax increases on tobacco products; and (5) tighter controls on access to tobacco products.

In the United States, the failure of tobacco legislation in the summer of 1997 along with a federal appeals court ruling that the Food & Drug Administration does not have jurisdiction over cigarettes led anti-smoking activists to pursue policy changes through litigation. To date, American juries have awarded damages in five individual smoking-liability cases, including a US\$81 million award by a Portland jury in March 1999 following on the heels of a US\$51.5 million award by a San Francisco jury a month earlier.

In November 1998, 46 American state governments agreed to a US\$206 billion settlement with the tobacco industry, including restrictions on advertising and promotion, to reimburse the states for money spent treating smoking-related illnesses; the other four states had earlier reached settlements totalling US\$40 billion. In his January 1999 State of the Union address, President Clinton announced his intention to sue the tobacco companies to recover money spent on smoking-related medical expenses under Medicare and other federal programs. The Clinton administration is expected to seek more in damages than all the states combined.

Meanwhile, in Canada, 1998 saw the government of British Columbia introduce legislation to charge tobacco companies license fees to sell their products, in order to help finance British Columbia's anti-tobacco campaign. Then, in April 1999, a report sponsored by the Ontario government concluded that there is a need for a sweeping new strategy to curb tobacco use in Canada's most populous province.

In partial response, on April 23, 1999, Ontario Health Minister Elizabeth Witmer announced that the Ontario government is seeking to sue American tobacco companies to recoup tens of billions of dollars in health-care costs. The government of British Columbia has also filed a lawsuit in a bid to recover such costs. An even more radical step was the introduction in January 1999 of an anti-smoking by-law—the toughest in Canada at the time—in Victoria, British Columbia. Within a couple of months, Toronto's chief medical officer recommended a ban on smoking in all restaurants and bars, in addition to all work places.

In a related issue, the year ended with the federal government's decision on December 21 to sue R.J. Reynolds Tobacco Holdings Inc., RJR-Macdonald Canada, the Canadian Tobacco Manufacturers Council and several related companies for US\$1 billion in the American courts on the grounds that, in 1991, these companies allegedly established an "elaborate network of smugglers and shell companies" to "undermine" the federal government's policy to reduce tobacco use by raising cigarette prices. On January 1, 2000, the entire province of British Columbia became subject to a complete ban on smoking in all bars.

Clearly, at the dawn of the twenty-first century, smoking a cigarette—though still a legal activity—has been pushed to the fringes of social acceptability.

This publication analyzes the history of tobacco regulation. It relates how government policy recommendations for tobacco are inevitably brought forth with a heavy veneer of public-interest rhetoric. In the case of tougher restrictions and higher taxes on smokers, the argument is that those measures are needed to reduce the economic costs that result from cigarette use. Hence, a relevant public-policy question regarding smoking is not "how much does smoking cost?" but "how much, if any, of the costs are paid by non-smokers?" Fur-

thermore, is government coercion more efficient than persuasion at achieving public goals?

Such questions are insightfully addressed in Professor Palda's stimulating and provocative overview of the history of tobacco regulation.

Regrettably, contemporary social issues often spark unfounded claims cloaked beneath spurious science. It is Professor Palda's ability to disentangle fact from fiction and science from mythology that makes his essay so timely a contribution to this important debate.

*Patrick Basham, Director
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Introduction

The laws which common usage ordains have a greater influence than the laws of government. In fine, society performs for itself almost every thing which is ascribed to government.

Thomas Paine, *Rights of Man*, Chapter 1.

Why do governments regulate tobacco? In this Public Policy Source, I try to find an answer by recalling the history of recent tobacco regulation. The pages that follow are not an essay about why government should or should not regulate tobacco. A sound case can be made for regulating smokers and arguments can be summoned to raise doubts about the wisdom of government intervention. It would be a delight to hear both sides debated coolly and reasonably but such a debate has yet to reach my ears. Parties to either side of the issue cross each other like Montagues and Capulets in dusty back streets, ready to draw swords at the slightest provocation. I wish to avoid this fray and instead give my attention to the reasons why governments regulate tobacco. I suggest that government regulation of tobacco is a mix of good intentions, confusion, and the naked self-interest of regulators and their supporters.

To suggest that tobacco regulation is driven by other than sterling intentions and may have other than the finest results is to invite censure. The press of public opinion against smoking is strong. Public opinion views deviations from the path of anti-smoking doctrine as an affront to decency. In his book *To Have or To Be?* the Viennese psychoanalyst Erich Fromm argued that public opinion is a despot. Public opinion stifles con-

trary opinions and imposes a rule of common sense. It is not common sense that conceived the notion that matter can bend space, that electricity and magnetism are alternate manifestations of the same force, or that there are different orders of infinity found. I do not pretend to be bringing profound truths to public view in the present essay. Instead, I suggest that the best of intentions for public policy may lead to abuse of those whom the policy was meant to help and may help narrow interests who, with good or selfish intentions, use tobacco policy to heap upon themselves money, power, and glory.

I wish I could sound a happy note for those who want government to micro-manage their fellows into a smoke-free state of existence but I can give no such assurance. My review of tobacco regulation history suggests that the deterrents to smoking are outside the state's control. It may be that education and the informal chiding of friends and family are the best deterrents to smoking. Friends and family are social workers in the fight against tobacco and it is in part by their efforts that the proportion of smokers has halved in the last 30 years. The evidence is questionable that government interventions have lowered the rate of smoking. It seems, instead, that government interventions have been directed more to the punitive taxation of smokers than to their salvation.

Trends in regulation

Tobacco regulation is a recurring phenomenon. Kiernans (1991) describes how in the generations after Walter Raleigh's expedition to the Americas, tobacco was deemed to be a health product and some schools, such as Eton in Britain, ruled that during the plague of the seventeenth century, students should smoke at least a pipe of tobacco a day to chase away the pest. At other times, smokers have been tortured and executed. Kluger (1996) writes that the seventeenth century Mogul emperor of Hindustan ordered smokers' lips split on the grounds that their habit invited debauchery. Jacobson, Wasserman, and Anderson (1997) explain that by the end of the nineteenth century in the United States, 14 states had passed laws banning the production, sale, or use of tobacco. In 1897, Tennessee banned the sale of cigarettes and the Supreme Court upheld the ban. There were also many laws banning the sale of tobacco to those under 18. As smoking became popular in the early twentieth century, most of these laws were either repealed or not enforced. Government attempts to control tobacco in North America were dormant until about the 1950s, when the first of three waves of government control of tobacco began.

Wave 1—Government control of information

Calfee (1997) explains how in 1950, the United States' Federal Trade Commission (FTC) got major tobacco companies to agree to stop advertising the tar contents of their cigarettes. According to Calfee, the FTC issued advertising guides that held that "no advertising should be used which refers to either the presence or absence of any physical effect of smoking." The guides also pro-

hibited all tar and nicotine claims "when it has not been established by competent scientific proof . . . that the claim is true, and if true, that such difference or differences are significant" (Calfee 1997: 42). The FTC flip-flopped on this issue throughout the 1960s until finally it not only allowed but forced tobacco companies to list the tar contents of their product. According to Kagan and Vogel (1993), the three big government interventions of the 1960s in the United States were the 1964 Surgeon General's warning about the dangers of tobacco use, the 1965 requirement that cigarette companies print warnings on the sides of cigarette packs, and the 1970 ban of all tobacco advertising on television and radio. Canada followed the American example in the early 1970s but with less formality than the United States pursued its fight against tobacco. In 1970, the Canadian House of Commons Committee on Health and Welfare and Social Affairs recommended complete bans on tobacco advertising and promotion that led to *Bill C-248* being introduced to the House. The bill was never debated in the House, and was withdrawn after the tobacco industry volunteered to pull all advertisements from television and radio and agreed to print a mild health warning on the sides of cigarette packs. Canada followed the American example but in its own way.

Wave 2—Bans and taxes

This first wave of tobacco control through dissemination of information gave way to a second, more intrusive, wave of regulation starting in the early 1980s. In 1980, the Canadian Parliament passed the first criminal prohibition of tobacco sales to minors. Citizens largely ignored this pro-

hibition. The government repealed the law in 1993 and replaced it with the *Tobacco Sales to Young Persons Act*, which made it an offence to sell tobacco to persons under 18 and prohibited vending machines in public places other than bars or taverns. Other actions included bans on smoking in public and private spaces, bans on advertising and marketing, and increases in cigarette taxes.

In their zest to restrain smokers, Canadian governments surpassed regulations south of the border. During the 1980s, municipalities passed bylaws that restricted smoking in restaurants, shopping malls, office buildings, and on public transport. These by-laws imposed restrictions that usually exceeded federal and provincial laws. The most recent and most extreme of these was passed in Victoria, British Columbia in January of 1999. This, the toughest anti-smoking law in North America, forbids smoking in bars, restaurants, hotel lobbies, bingo halls, bowling alleys, and long-term care facilities. Dr. Richard Stanwick, the region's medical health officer proclaimed: "Smokers are asking for their space and we do have one for them—but it is outside" (Arnold 1999). According to a 1995 survey by Health Canada of all municipalities with populations greater than 10,000, 39 percent of municipalities throughout the country had anti-smoking by-laws. Provinces enacted laws in the same spirit and imposed fines on transgressors. In addition to smoking bans, the Federal government passed bans on advertising, starting in 1988 with Bill C-51. This bill was a blanket ban on advertising. Tobacco companies contested the Bill all the way to the Supreme Court, where they won their case in 1995. Milder versions of advertising bans followed with Bill C-71 in 1997, and Bill C-42 in 1998 (see BGOSHU 1999).

As a backdrop to this second intrusive phase of regulation, we see tobacco taxes rising in Canada. Traditionally, these taxes had been low but, by the end of the 1980s, Canada's taxes on tobacco were higher than those of most other countries of the Organisation for Economic Cooperation and Development (OECD). According to Finance Canada, in 1998 72 percent of the cost of a pack of cigarettes was attributable to taxes in British Columbia, 50.2 percent in Ontario, and 55.3 percent in Quebec (Physicians for a Smoke-Free Canada 1998). By the early 1990s, "Canada led the world, or was close to the lead, in restricting cigarette marketing, in deterring use through taxation, and in directly regulating cigarette use" (Kagan and Vogel 1993: 28). Canada was following the World Health Organization's *Tobacco or Health* resolution of 1986 that all countries should ban tobacco advertising, advertise the health hazards of tobacco, provide smoking cessation programs, put warning labels on cigarettes, provide protection against second-hand smoke, and impose financial measures to discourage smoking.

Wave 3—Torts

The third wave of assault on tobacco began in 1994 when 40 American states launched torts against tobacco companies. Canadian provinces have followed this example. In 1997, British Columbia passed its *Tobacco Damages Recovery Act*, which seeks to sue tobacco companies for expenses incurred by public-health systems due to tobacco related illnesses. Ontario is suing American tobacco firms for enticing innocent Ontarians into smoking to the point of provoking lung cancers (Glenn 1998). Torts are a hidden tax on smokers, workers in the tobacco industry, firms that supply the tobacco industry, and shareholders.

Trends in smoking

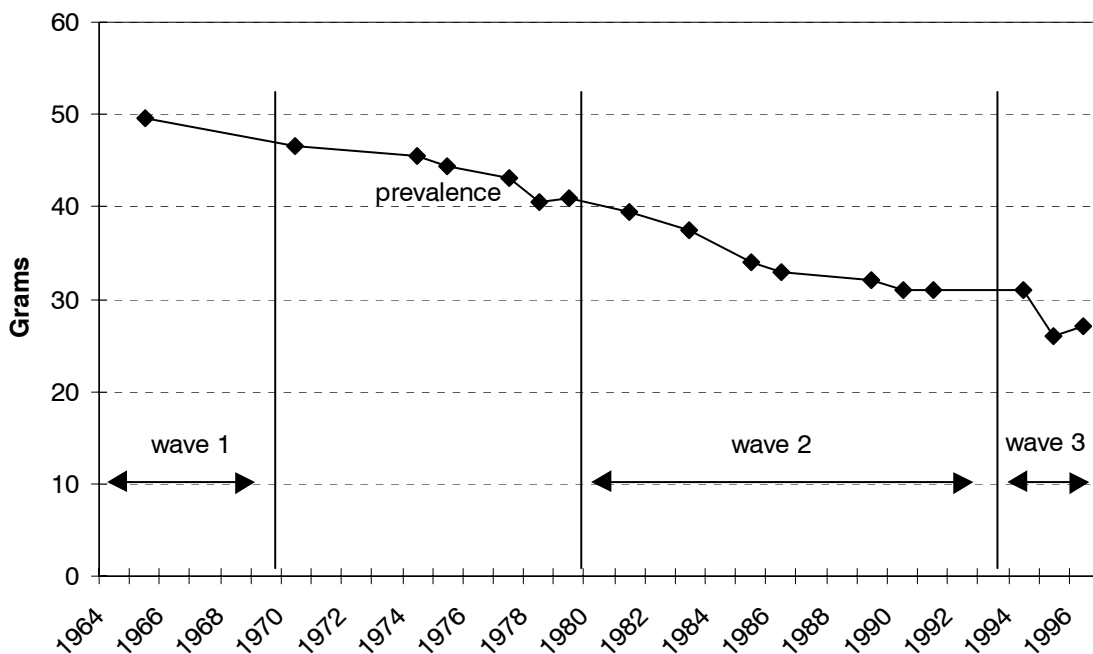
In 1965, 49.5 percent of Canadians smoked. By 1996, according to two surveys by Statistics Canada, between 27 percent and 28.5 percent of Canadians were lighting the weed. The country has changed since those hazy days when the professor would pull on a stogie while students reached for a *Lucky* to distract them from Shakespeare's use of the subjunctive in *Titus Andronicus*. Trends in smoking are strangely at odds with trends in regulation. Regulations and taxes started gearing up after smoking had been in decline.

Statistics Canada (see 1999c) measures the incidence of smoking among Canadians using a "smoking prevalence measure." Smoking prevalence is the percent of people in Canada who smoke every day plus those who smoke occasionally. Figure 1 shows a fall in smoking prevalence. Between 1965 and 1996, smoking prevalence fell

from 49.5 percent to between 27.0 percent and 28.5 percent, a fall of between 48.8 percent and 42.4 percent.

No one measure of smoking gives the whole picture on tobacco use. Smoking prevalence says nothing about the number of cigarettes smokers smoked. You may find a fall in prevalence but a rise in the use of tobacco by regular smokers. Figure 2 shows that the number of cigarettes a smoker consumed kept rising until the 1970s and then started to fall in early 1980s and stabilized in the 1990s. To calculate cigarettes consumed per smoker, I took CANSIM series D2091 on millions of cigarettes sold in Canada, then divided this in each year where smoking prevalence was available by the number of smokers 15 years of age and older. I calculated the number of smokers 15 years of age and older by taking smoking prevalence of

Figure 1 Smoking prevalence (1960–1996) and waves of regulation



Source Physicians for a Smoke Free Canada 1998

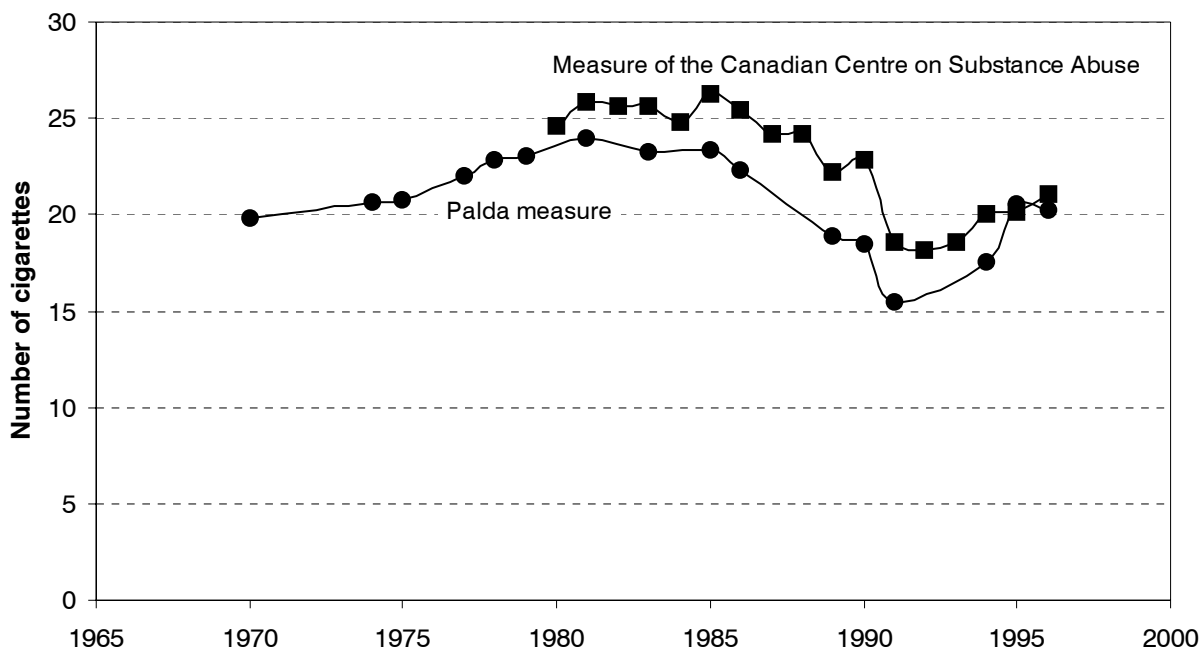
those 15 years and older and multiplying this by the population above 15 years of age (obtained from CANSIM series D892268, D892538, C892268, C892538), and then divided by the number of days in the year in order to get at cigarettes per day per smoker. I have included an alternate measure of cigarettes per day per smoker that comes from table 3.6 of the 1999 report of the Canadian Centre on Substance Abuse (CCSA) (1999). The CCSA's numbers are for a shorter period than mine and show some discrepancy from mine but show the same overall tendency in daily number of cigarettes smoked by smokers. I do not count the dip in the early 1990s in cigarettes smoked as a true indicator of the level smoked because official sales figures during this period were confounded by the explosion of the underground trade in cigarettes. This trade only subsided in the mid-1990s after Ottawa lowered cigarette taxes.

The trend that emerges is that initially many people started quitting, then smokers intensified their smoking, then more people kept quitting and smokers smoked less than before. The World

Health Organization (WHO) is very keen on the figure of number of cigarettes consumed, stating that "Cigarette consumption per adult 15 years of age and over is an important summary measure of tobacco use. It gives a good overall indication of how much tobacco is currently consumed" (WHO 1996).

Even these numbers do not get to the bottom of what we want to measure, which is the noxious chemicals going into smokers' lungs. The weight of cigarettes has fallen over the last 30 years and the nicotine and tar contents have fallen by as much as 40 percent (Calfee 1997). To complicate measurements further, we do not know whether people are breathing in more smoke than before and holding it longer than before. Measuring tobacco consumption is a tricky business. In spite of these qualifications, no agency or researcher that I have surveyed would dispute that smoking has been on a decline and the numbers presented above from different sources tend to support the notion of a long-term decline in the number who smoke and the amount that smokers smoke.

Figure 2 Cigarette sales per smoker (1968–1996)



Source Statistics Canada 1999a, 1999b; Physicians for a Smoke Free Canada 1998.

The picture for the United States is similar but slightly more detailed than it is for Canada. Economist Kip Viscusi (1992) of Duke University has collected data for the United States going back to the turn of the century. His figures reveal that the start of the decline in smoking can be traced to the early 1950s, ten years earlier than the Canadian figures show. It seems the decline in American smoking began with the "Great Tar Derby" of the early 1950s. To set themselves apart from the large firms who dominated the tobacco industry, small firms introduced cigarettes with filters and low tar and nicotine. Calling attention to the greater safety of filtered, low-tar cigarettes triggered hurricanes of hypochondria. If a *Kent* was safer to smoke than a *Lucky*, could this mean that all smoking was unhealthy? Scare messages gained market share for small firms but set off a 3-percent fall in the sales of the whole industry in 1953 and a 6-percent fall in 1954. The fall in smoking only slowed after the United States Federal Trade Commission discouraged further advertising of tar and nicotine contents.

What is true for both Canada and the United States is that smoking resumed its fall, starting in the early 1960s, after the United States Surgeon General's 1964 report on the ills of tobacco. This report helped convince non-smokers and ex-smokers that smoking was self-abuse: a dangerous

nihilism to be stomped out. A man who does not care about himself will not care about others. By the 1980s, non-smokers were pushing these nihilists to the fringes of society. Restaurants segregated and even banned smokers from their premises. In 1986, Air Canada announced it would limit or ban smoking on all its flights. In 1987, non-smoking lobby groups convinced the five major newspapers in Canada to refuse tobacco advertisements. In 1991, over 6000 American companies refused to hire smokers, and 30 American states had to pass laws to protect smokers from job discrimination. The decline in smoking prevalence was not just a North American phenomenon but also found in most industrialized countries.

With such social disapproval directed towards tobacco, one would think governments could relax. Governments had helped to raise health concerns in the 1960s and society was finishing the job. Instead, just as smoking was at a low ebb in the 1980s, governments began a new attack against smoking. Municipalities started to ban smoking from public places and restaurants. The federal government banned smoking on airlines and banned all forms of tobacco advertising. It was as if the Allies had launched the D-Day attack 15 years after the end of World War II. Why did tobacco regulation take off only after smoking had started to fall?

Social forces against smoking

By 1987, when Parliament was discussing measures against tobacco advertising (Bill C-51) and measures that restricted where people could smoke (Bill C-204), Gallup Polls reported that 67 percent of Canadians favoured a ban on advertising and 30 percent opposed a ban. The 1986 figure for smoking prevalence measured by Statistics Canada in its survey of the labour force found that smoking prevalence was 33 percent. This is remarkably close to the Gallup figures for those who opposed smoking regulation. It is hard to think that the move to regulate smoking was divorced from politics. In 1965, more than half of those eligible to vote smoked. By the mid-1980s, smokers were “wimpy kids” on the political block. They faced the opprobrium of non-smokers and of a large number of quitters. Over half of the people who have ever smoked have quit and detest tobacco with a zeal unmatched by that of those who have never smoked.

In a survey of a large number of attitude studies, psychology professor Bryan Gibson (1997) found that non-smokers tend to be scornful of smokers and feel that smokers are stupid, likely to fail in marriage and work, low in self-esteem, and even immoral. Disdain for smokers is a social snowball that grows as the numbers of smokers diminishes. In a 1997 study for which I am aware of no Canadian counterpart, Peter Jacobson and his colleagues uncovered that in the United States in the late nineteenth century, a crusade rose against smoking. Fourteen American states had anti-smoking bylaws and restrictions on tobacco advertising were widespread. It is no wonder that this should be so. Smokers and tobacco users were a minority. As smokers grew in number throughout the first half of the twentieth century, there was little impetus to enforce tobacco

regulations. Regulatory questions of the 1940s dealt mainly with how to sustain the industry. Regulation of smoking only started to reappear in the 1970s, when smokers started falling into a minority. In the 1980s, when they make up only one-third of the population, anti-smoking laws take their full effect. It was only in 1986, for example, that the World Health Organization got on the bandwagon with its resolutions that encouraged governments to ban the advertising of smoking, put health warnings on packs of cigarettes, provide smokers with cessation programs, raise taxes on tobacco, protect against second-hand smoke with anti-smoking by-laws, and protect minors with laws against the sale of cigarettes to minors.

Why swing the sword so hard after the dragon was down? Franklin Zimring (1993) suggests that regulations often come after social norms have enforced compliance with the masses' views. Regulations do not break new ground. They simply make it a little easier for social norms to operate. Much of the regulation of the 1980s and 1990s may be no more than society putting the final stamp of disapproval on smoking. As Zimring (1993) writes:

There is no disputing that the tremendous upsurge of smoking in the first half of the twentieth century was a social phenomenon. But some observers may be tempted to assume a cause-and-effect relationship between government antismoking measures over the past two decades and the decline in smoking prevalence. Yet the broad international character of the decline and the temporal sequence of both the trends in smoking and most government

countermeasures suggest that social change is the major explanation of changes to date in cigarette smoking in the United States.

Zimring found that regulations come with delay not just in the case of tobacco but also in the case of drugs and alcohol. Consumption of alcohol fell by 70 percent in the 30 years leading up to the first American prohibition of alcohol in the 1850s. Alcohol consumption fell in the years leading up to the great prohibition of 1919. Cocaine and opium remained legal only so long as they were popular fixes for melancholy, as Valium and Prozac are today.

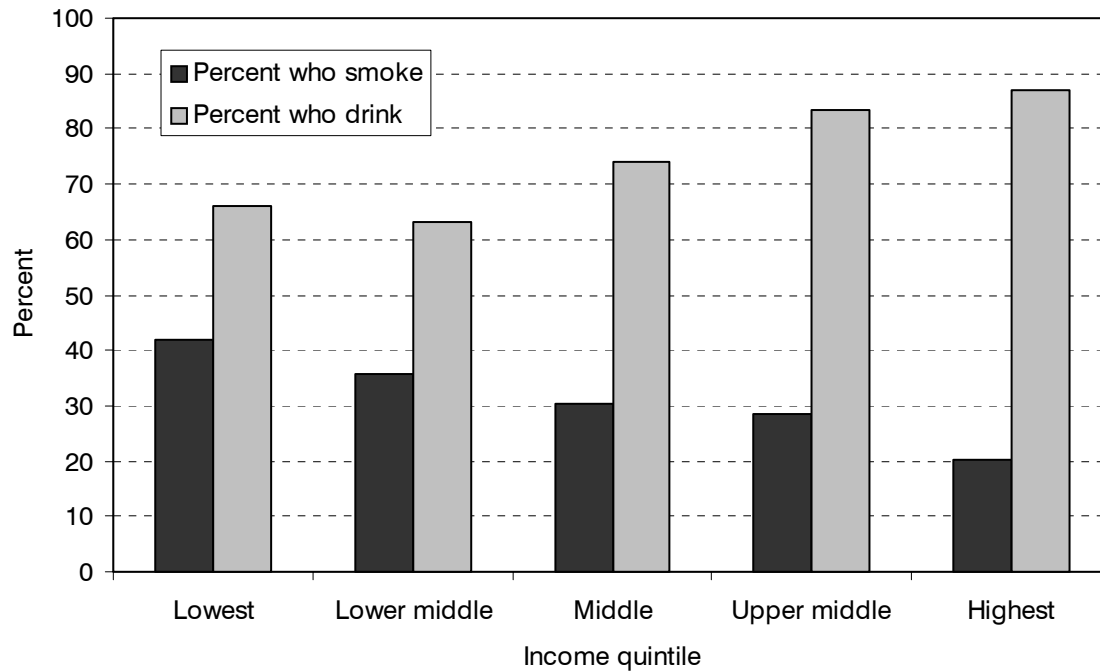
In the case of cigarettes it seems, according to Robert Kagan and Jerome Skolnik (1993), that the decline in smoking was led by high-status people and there may have been a social “trickle-down effect:” bosses for example, stopped smoking, setting an example for their employees just as Louis XIV set an example of cleanliness for France when he discouraged nobles from relieving themselves over staircases and from palace balconies. Today, smoking has the same cachet as certain unhealthy practices of the hillbillies and is subject to a level of peer pressure that might have made even a Winston Churchill throw his cigar box in the Thames.

Saying that smoking started to decline because high-status people started showing an example does not explain why they modified their behaviour or why others found their example one worth following. The rise in income per capita after the Second World War and the rise in the anticipated life-span may have induced the decline in smoking. As with pollution, smoking seems to follow a hill-shaped path when tracked against national income. As income rises, people can afford more cigarettes, so people can smoke more than before the rise in income. As Viscusi (1992) documents, a rise in smoking driven by a rise in income seems to be the story from the start of the

century until the early 1950s. But, there is an opposing effect. With rising incomes, one may wish to live longer: more income means that you have more to live for in retirement. If you combine advances in technology that allow people to buy advanced health care in their later years, the combination produces a tendency for smoking and income to march in opposite directions.

A story went about in my student days at the University of Chicago of a professor in the economics department who was expecting to win the Nobel Prize in about ten years. He was also a heavy smoker at the time and figured that to enjoy the fruits of his labours and the glory that came with the Nobel Prize he would quit smoking to increase his chances of living until he won the world’s top honour. His gamble paid off, he took the prize, and now, many years later, is still alive and stroking his Swedish pendant. The calculations he made may have been the sort that millions of people made who felt that they wanted to be around to enjoy their future prosperity. What may have hastened their choice to butt out was also the growing evidence that smoking could hurt your health. The desire to live long to enjoy great income seems to be a concern of the second half of this century and may explain why smoking in the last 30 years has fallen as income has risen. We see today a tendency for smoking to fall among all citizens as their incomes rise. In consequence we also see that smoking is least prevalent among professions associated with upper incomes. Figure 3 shows that the lowest income group (quintile) has a 41.8 percent smoking prevalence while the highest income group has a 20.3 percent smoking prevalence.

Even though no one can be certain of what caused the decline in smoking, it seems that government was not the main cause of the decline. Smoking started to fall in the United States in the 1950s—before the Surgeon General’s 1964 report.

Figure 3 Smoking and drinking by income quintile (1996–1997)

Source Canadian Centre on Substance Abuse 1999: 42, 91.

Smoking slowed in the mid-1950s when the Federal Trade Commission suppressed advertising about tar and nicotine contents of cigarettes. Government advertising against tobacco appeared in the 1960s and the informational efforts of government are widely seen as accelerating the decline in smoking. Given trends in the 1950s, it is legitimate to wonder how much faster smoking would have declined had a free market in cigarette advertising been allowed to thrive. The social forces ranged against tobacco started

growing in the 1950s and, if there is one thing a free market is capable of, it is of sniffing out these forces and catering to them. Government's efforts to suppress private advertising and take on the role of information crusader can be looked upon as suspect. Even more suspect is the heightened campaign of regulation and taxation that followed government's information crusade. Not only did regulations come on the scene late, but one may question whether they had anything like the effect reformers intended them to have.

Is tobacco regulation useless?

To understand the history of tobacco regulation it helps to know whether government is acting in the public interest or whether there are some special interests pushing government along its course. In the previous sections, I suggested that government regulation and taxation of tobacco were suspect because these efforts gather steam after tobacco consumption is in decline. Governments efforts also seem suspect when we examine their track records. Some case might be made for regulation, even if it arrives late on the scene, provided that regulation can be proved to reduce smoking and increase the health of smokers. Such proof is hard to come by. Let us look at a few of these regulations to see what effects they have had.

Advertising bans

In a 1998 review I made of dozens of studies of advertising bans, I found mixed and largely negative evidence that smoking bans reduce the amount of tobacco consumption (Palda 1998). In Canada, after the 1988 law banning tobacco advertising, tobacco consumption *rose*. Even with the best statistical techniques, event studies trying to find that advertising bans reduce smoking can show no results or false positive results.

False positives arise because bans often go hand-in-hand with grassroots movements to stop the proscribed activity. In a study of anti-alcohol policies and vehicle fatalities, Ruhm (1996) explains that statistical models of alcohol consumption fail to account for rising social stigmatization of excessive drinking. If the ban is the result of social stigma, then the ban itself will not be responsible for a fall in the targeted behaviour. The ban will

be a stand-in for a crest in social disapproval of smoking. Put more technically, any study that finds a positive relationship between advertising bans and reductions in smoking may not be accounting for the endogeneity of advertising bans. Bans do not come into being by themselves. They are the result of pressure by broad coalitions of interest groups such as physicians, teachers, parents, and social activists and it may be the disapproval of these groups for smoking that reduces smoking. Karen Conrad and her colleagues found that young people decide to smoke after weighing the opinions and actions of their parents and peers (Conrad, Flay, and Hill 1992). An advertising ban may be simply the raising of a flag after a long battle. It is a symbol of victory, not the cause. Philip DeCicca and his colleagues from the Cornell University School of Human Ecology found that the most powerful variable explaining smoking onset was a variable for social disapproval (DeCicca, Kenkel, and Mathios 1998).

It is even possible that anti-smoking laws have slowed the downward trend in smoking. An advertising ban might endanger health by blocking information cigarette companies provide about the safety of their product and the dangers of rival cigarettes. Ever since the 1920s, cigarette companies have tried to give consumers information about what their product will do to health. Initially, cigarette advertising proposed that cigarettes in moderation could be good for health. This type of advertising did not last long. Cigarette companies discovered through extensive marketing efforts that smokers were worried about tar contents of cigarettes and did not like to be “winded” by smoke. In response, companies bred light forms of tobacco and invented and

refined the filter tip. In a recent history of the cigarette, Richard Kluger (1996) describes the hundreds of millions of dollars that cigarette companies have sunk into researching the health effects of cigarettes and the further millions they spent to market cigarettes with safety features they believed were important to consumers. Cigarette advertisements from the 1930s to the 1970s reproduced in Viscusi (1992) emphasize a negative trait of smoking: the danger to health. As *Business Week* wrote in 1953: "Why has the industry persisted in this negative form of advertising even when, as tobacco growers and others complain, it hurts the trade by making people conscious that cigarettes may be harmful?" (*Business Week* 1953: 68). In his book *Smoking: Making the Risky Decision*, Kip Viscusi, a moving force behind the academic *Journal of Risk and Uncertainty* and a leading researcher in the way consumers perceive risk, writes:

Advertising the comparatively lower risk of a brand name may hurt that brand if individuals pay excessive attention to the presence of risk rather than its lower level. Moreover it may stigmatize the entire product group. Although safety appears to have become more marketable in . . . the 1980s and 1990s . . . the advertising environment of the previous decades in which these ads appeared was quite different. The willingness to mention health risks in an ad is an implicit recognition that the safety of the product was a salient consumer concern. (Viscusi 1992: 37–38)

It is possible that the health advertising wars of the cigarette companies reduced consumption of cigarettes by bringing to light new information about what cigarettes do to one's body. This information highlighted a new feature of cigarettes. As explained earlier, new features are what change demand. There is no definitive answer to the question of whether negative adver-

tising wars reduced industry demand but we know that shortly after these wars the market shares of cigarettes yielding 15 milligrams of tar or less grew from 0.3 percent in 1964 to 27.5 percent in 1978 (Schneider, Klein and Murphy 1981). From 1955 to 1978, pounds of tobacco per cigarette in the United States fell from 0.00263 to 0.00173. There was also a major shift to filtered cigarettes. These were the major methods by which cigarette companies reduced tar and nicotine contents. Even if cigarette consumption did not fall due to the advertising wars, the consumption of features of cigarettes thought to be harmful fell.

Tax increases

There is evidence that taxes can discourage smoking. The evidence is mixed but stronger than the evidence for the effects of advertising bans on smoking. The problem with concluding that by reducing smoking, tax increases have increased the health of smokers, is that we do not know whether smokers have diverted their spending away from unhealthy smoking to some other unhealthy activity. Even if smoking bans and all anti-smoking measures were successful in blotting out smoking, it is not clear that smokers would live longer or more happily than before. Research by Sam Peltzman (1975) suggests that the introduction of safety belts and airbags in cars may not have reduced by much the risk of fatal accidents. Even though engineering studies prove these features will reduce the risk of death at *any given speed*, Peltzman and later researchers concluded that consumers were offsetting their increased safety by driving faster or more recklessly. The "law of offsetting behaviour" suggests that consumers are aware of risks and adjust the riskiness of their environment to a precise level that suits them. It is possible that smokers would offset any ban by substituting other high-risk substances such as alcohol. In the

only study of its sort of which I am aware, Goel and Morey (1995) calculated for the United States that a 15 percent rise in the price of cigarettes would lower cigarette demand by 15 percent and raise alcohol demand by 20 percent among young people. While much work remains to be done to determine how tobacco

prices turn smokers into drinkers, Goel and Morey's results force us to acknowledge that it may not be possible to control people bent on taking risks. As Viscusi (1992) has shown, smokers in every part of their lives—even the types of work-places they choose—are bigger risk-takers than non-smokers.

Tobacco regulation and the big money grab

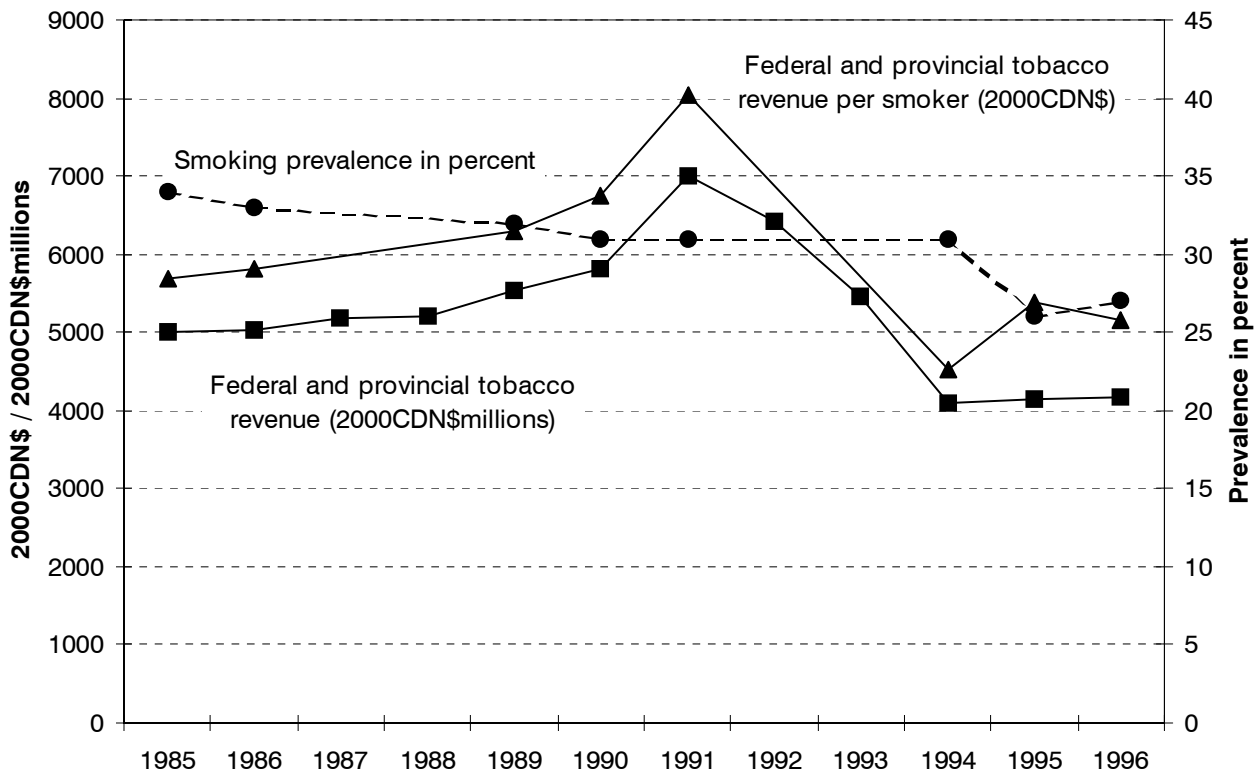
Smoking regulation's late arrival and its dubious record of controlling smoking suggests that other motives than a concern for public health may have driven the government crusade against smokers. As figure 4 shows, between 1985 and 1991, as the percent of smokers fell, governments in Canada managed to raise their real revenues from tobacco by 39.8 percent. Figure 4 shows a dip in government revenues after this date. This is not because smokers ceased to pay a premium but rather because the premium they paid to government fell and the premium they paid to smugglers rose. The numbers in figure 4 for the high period of smuggling during the early 1990s and the mid-1990s are underestimates of the tax burden on smokers. Even figures for the later 1990s understate the premium smokers paid though not by as much as figures for the mid-1990s (due to government's decision to decrease the tax *rates* on cigarettes).

A usual argument for taxing smokers is that in a public health-care system smokers impose fiscal externalities. Fiscal externality is a label governments stick on anybody who costs them money. Smokers are the most recent victims of this classification. The idea is that a smoker puts more of a burden on the health-care system than he contributes in taxes. This means some other taxpayer who never lit up is subsidizing the smoker's folly.

The smoker ends up smoking too much because another taxpayer is paying part of his ticket to Valhalla. To control the excess, governments believe they must step in to control smokers and the companies who ply them with tobacco. Taxes on cigarettes earmarked for medical care could act as user fees that reverse the fiscal externality. The problem is that governments end up setting these taxes too high.

The benefits to non-smokers and costs to smokers in Canada have been calculated by several researches. Economist André Raynauld of the University of Montreal and Jean-Pierre Vidal estimated that for Canada in 1986 smokers paid more in tobacco taxes than they cost the health-care system. A conservative reading of their findings is that the yearly tax smokers paid came to a \$363 subsidy to each non-smoker in the country (Raynauld and Vidal 1992). Greg L. Stoddart and his colleagues found that in 1978 smokers in Ontario cost government between \$21.5 and \$39.1 million but paid \$485 million in taxes (Stoddart, Labelle, Barer and Evans 1986). That is, smokers paid in taxes between 22.2 and 12.3 times what they cost the system. All of these estimates are sensitive to the assumptions made about what diseases tobacco causes and whether or not to count, for example, pension money foregone by the premature death of smokers as a reimburse-

Figure 4 Federal and provincial tobacco revenue and smoking prevalence



Source Canadian Centre on Substance Abuse 1997: 246; Physicians for a Smoke Free Canada 1998.

ment from smokers to non-smokers. Researchers have, if anything, tended to excess in attributing diseases to smoking. Even under a range of assumptions that cover many possible scenarios, it seems that smokers pay more than they use. The taxes that have accompanied the wave of anti-smoking regulation since the 1980s are punitive and go well beyond recovering the costs smokers impose on a public health-care system.

To believe that government served the public interest by taxing the fiscal externality from smoking one would have to see taxes on cigarettes being lowered from their present levels. One would also have to see that government is consistent in its views about fiscal externalities. This would mean that governments would tax fatty foods at many times the rate they now tax them. Renowned Oxford epidemiologists Sir Richard

Doll and Richard Peto found that diet, and in particular fats, contributed more to deaths from cancer than did tobacco. Figure 5, drawn from their researches, illustrates the contributions of diet (35 percent) and tobacco (30 percent) to cancer. In a similar study of Albertans between 1984 and 1988, Birdsell et al. (1990) found that diet and tobacco were "the most important causes of cancer deaths in Canada." There is near unanimous agreement in the scientific community that a high-calorie diet is a primary factor in cancer. In spite of such findings, there is no crusade against eaters of fatty foods and fewer feel embarrassed to be seen munching a Zero Bar in public, or asking for fries with poutine and an order of mayo on the side, than are embarrassed to be seen smoking in public. A government impressed by Doll and Peto's findings would not make tobacco its main target of public health.

Instead of following rational principles of public policy, tobacco taxes have grown to resemble the tribute Roman conquerors exacted from subject peoples. Anti-tobacco regulation and advertising have shamed smokers into accepting the financial whipping governments have laid on them. I do not suggest that governments have planned a campaign of shame that would help raise taxes. I suggest that regulations that come late on the scene and are doubtfully effective force a critical examination of government's motives for regulation. Is regulation there for the public good or to serve a private interest? The evidence of Raynauld and Vidal hints that the private interest being served is that of non-smokers and that the taxes are the instruments that serve these interests.

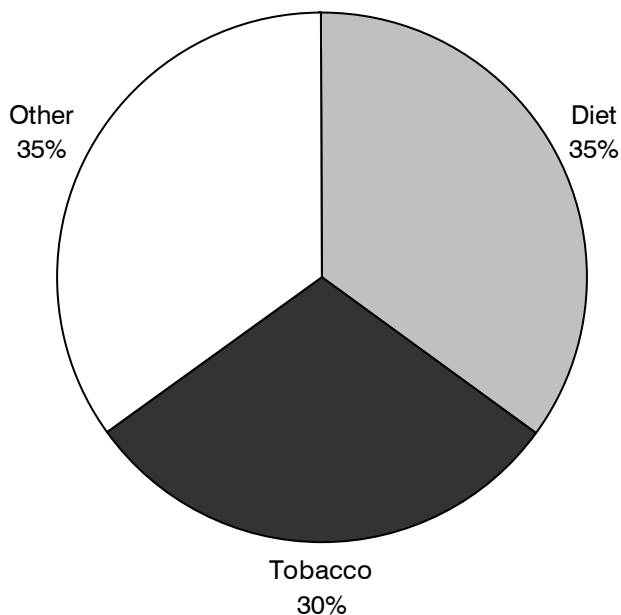
Taxes emerge in ways that are hard to predict from a cauldron of special interest pleadings and pressures. The taxes that emerge tend to be those that do the least damage and provoke the least resistance. Up to the point where smuggling is not a problem, a tobacco tax does little

economic damage. The demand for tobacco does not respond by much to price changes. This means the tobacco tax is mainly a transfer of income from smokers to non-smokers. Economic damage comes from taxes that change people's behaviour. A tax that discourages consumption may force workers out of their jobs, lead to the abandonment of factories, and force consumers to seek less satisfying substitutes for their lost consumption. These changes are a loss to those being taxed and are not a gain to the government. This is why such losses are called "deadweight losses."

The tobacco tax seems to have low deadweight losses. As economist Gary Becker (1983) has suggested, taxes tend to be levied on targets with low deadweight losses. His notion was that if one interest group is trying to take resources away from another, it will have to invest money in politics. To make such investment worthwhile the returns have to be good. If anti-tobacco activists get \$100 million out of a new tax on smokers, then smokers fork over \$100 million on the cigarettes they continue to consume after the tax. They also suffer a deadweight loss proportional to the cigarettes the tax has discouraged them from consuming. This deadweight loss goes into nobody's pocket.

If the deadweight loss is large relative to the transfer of \$100 million, then smokers will invest in politics to counter the tax. If there were no deadweight loss, then anti-smokers would stand to gain \$100 million from forcing the tax through Parliament and smokers would stand to preserve \$100 million from defeating the tax. If the deadweight loss were \$150 million, then anti-smokers still stand to gain \$100 million but smokers will save themselves \$250 million from defeating the tax and so have a strong incentive to invest in political counter-attacks. This is why taxes with large deadweight losses tend not to survive. They simply provoke too much anger in the

Figure 5 Causes of Death from Cancer



Source Doll and Peto 1981.

groups being taxed and bring too little to the beneficiary groups to be politically feasible. Because smoking does not respond much to taxes, it seems the deadweight losses from tobacco taxes are low. Low deadweight losses may explain, in part, why smokers pay such a heavy tax.

Becker emphasized that deadweight losses are not the whole story on what determines tax burdens. The political power of the group being taxed will also determine its tax. Smokers are a weak political group because of their small numbers and, perhaps, because of their lack of education. Low income and low education often go hand-in-hand. Figure 3 shows that smokers are drawn disproportionately from the poor. This is not the case for drinking, which is more of a rich man's pastime. Perhaps, this explains why we do not see the sorts of tax assaults on drinkers we see launched on smokers. To be more precise, federal and provincial revenues from alcohol fell by 12.4 percent in real terms between 1988 and 1997 while in the same period the prevalence of drinking hardly changed. The picture is harder to assemble for smoking. Real federal and provincial revenues from smoking were down 20.2 percent from 1988 to 1997. But, in between these dates, government takings from tobacco nearly doubled. In the early and mid-1990s, smugglers appropriated part of government's takings from tobacco. To this day smugglers and contrabandists continue to be a source of hidden tax on smokers. If we combine this picture with the fact that smoking prevalence fell by 10.9 percent between 1988 and 1997, the impression is that smokers have been a target for fervid extortion over the last decade.

Government anti-smoking regulations that heighten the opprobrium attached to smoking have shamed smokers and resigned them to high taxes in the way the human cattle of Plato's *Republic* resign themselves to being exploited by the wealthier, more intelligent ruling class. Politi-

cians may not see the direct link between their regulations and their ability to raise extra taxes but, if such a link exists, the link will make it likelier that regulations and taxes go hand-in-hand than if regulations made it hard for government to raise taxes.

The notion that regulations have paved the way for punitive taxes on smokers may appear cynical to anti-smoking activists and to many in the public who see the main problem with cigarettes as a youth problem. By this view, one young person smoking is one too many smoking. Concerned people will point out that even though adult smoking is in decline, youth smoking has shown, since the late 1980s, with some variations, an increase of perhaps a quarter. "For the children" government must continue its assault on tobacco. These arguments omit that the most repressive measure against smoking, the cigarette tax, falls most heavily on adults, because it is adults above the age of 20 who make up nine-tenths of smokers.

Those who are truly concerned about the health of their children would do well not to trust those children to the care of government regulations against smoking. In 1992, a study by Karen Conrad and her colleagues found that family and friends are the major determinants of whether the young smoke. It is even possible that government campaigns against smoking have given smoking an aura of danger that the young find attractive. While more research into this area is needed, some sense of the effectiveness of government repression of youth smoking can be gained from noting that the decline in youth smoking throughout the 1980s ended in the late 1980s just after government banned tobacco advertising and launched major campaigns against youth smoking.

In Canada, smokers have so far been drained by tax increases. If we define shareholders in compa-

nies as those who have rights to the residual revenues of the companies, governments in Canada are by far the largest shareholders of tobacco companies. Soon we may follow the American example of extorting money through the courts. Jacob Sullum (1998) has told the story of how, since 1994, state governments abetted by Washington have sued tobacco companies successfully for damages to public coffers from the illnesses of smokers. In spite of surveys such as those of Gravelle and Zimmerman (1994), suggesting that smokers contribute many more times to public coffers than they withdraw, the states have had remarkable success with the courts and settlements of close to \$400 billion dollars are in negotiation. The first province in Canada to follow the American example was British Columbia. The provincial government intro-

duced Bill 37, the Tobacco Damages Recovery Act in 1997. The Act said that the provincial government may go to court to recover costs from tobacco companies of providing health care to smokers. In 1998, Ontario launched a \$40 billion suit against American tobacco companies. Torts have allure because they remove the upper limit to tobacco taxes that smugglers impose. A tort ruling forces tobacco companies to pay provincial governments directly. Tobacco companies then recover their loss on wholesale to retailers. Smuggling thrives only when there is a gap between wholesale and retail prices, such as might exist with direct tobacco taxes. Torts make the gap disappear and as such are an ideal means of taxing tobacco companies and cutting smugglers out of a cut of government revenues.

Conclusion

The present essay has not been a discussion of the theoretical justifications for allowing the state to restrict smoking. It is unusual to conclude an essay by emphasizing what the essay has not said. The debate on smoking is unusual. Anti-smokers have trouble understanding why there is even a debate. Smokers feel besieged and defensive. This is why I emphasize that the present essay is not about whether, in principle, government should regulate tobacco. My theme has been that, in practice, tobacco regulation may miss its objective of decreasing smoking. Regulation seems to gather steam only after smoking starts its decline in the population. Regulation

seems well-coordinated with tax increases on smokers. I have conjectured that regulation and taxes go hand-in-hand because regulations help to shame smokers into accepting rising taxes on their habit. The message of this paper is that before asking government to regulate tobacco we must ask whether friends, family, and colleagues are not already imposing their own informal restrictions on smokers. We must also consider whether, if we grant government the power to regulate tobacco, we will not also write our leaders a *carte blanche* to tax. The best regulation becomes bad when used for ends it was not intended and when taken too far.

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Acknowledgements

I thank Patrick Basham for his editing suggestions.