

What is an Externality?

- An externality is a cost or benefit of an economic activity experienced by an unrelated third party.
- The external cost or benefit is not reflected in the cost or benefit of a good or service.
- Therefore, economists generally view externalities as a serious problem that makes markets inefficient, leading to market failures.
- The externalities are the main catalysts that lead to the tragedy of the commons.

<https://corporatefinanceinstitute.com/resources/economics/externality/>

Overcoming externalities

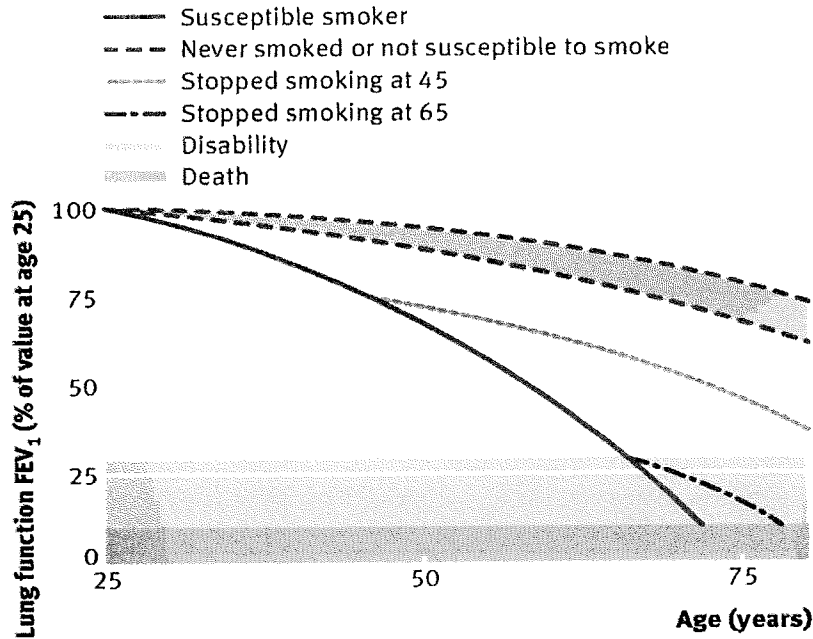
To correct for externalities would require some form of government intervention:

- Tax. To reduce consumption of negative externalities, one can place a tax on goods with negative externalities
- Subsidy. To increase consumption of positive externalities, one can place a subsidy on these goods.
- Regulation (or a Rule). The government may place regulations which limit the amount of say, a pollution.
- Nudges and behavioral economics – The government could place incentives and make it easier to choose less costly environmental choices.

<https://www.economicshelp.org/blog/glossary/externalities/>

Clinical or health related externalities

Fig 1 Graph of lung function against age showing how smoking accelerates age related decline in lung function (adapted from Fletcher and Peto11).



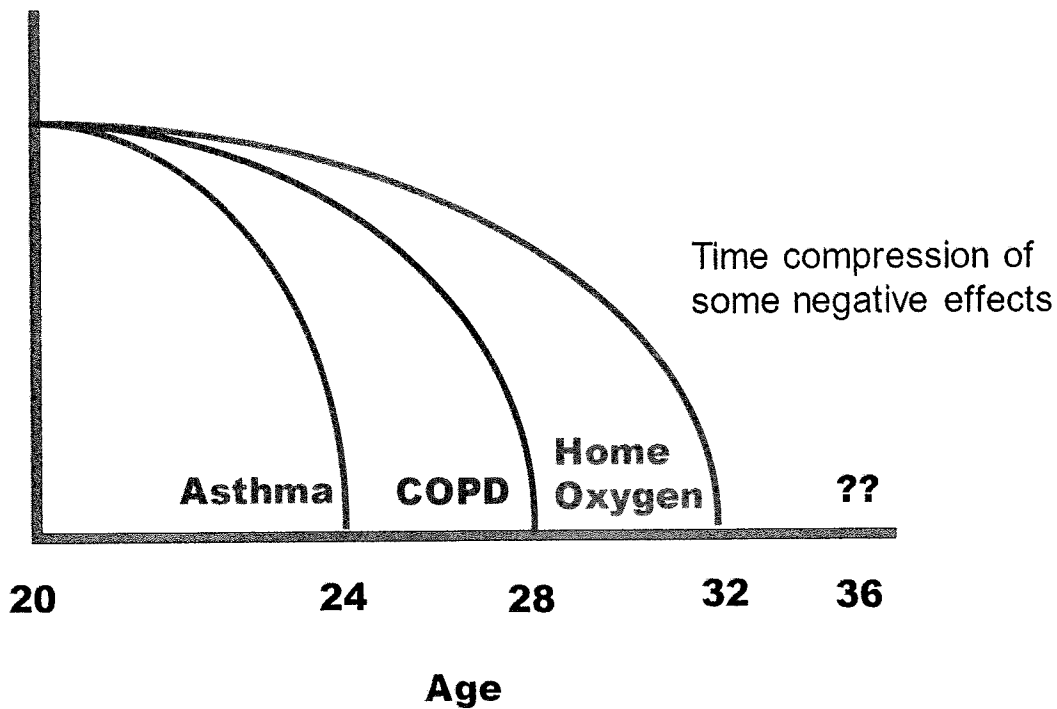
Gary Parkes et al. BMJ.2008;336:598-600

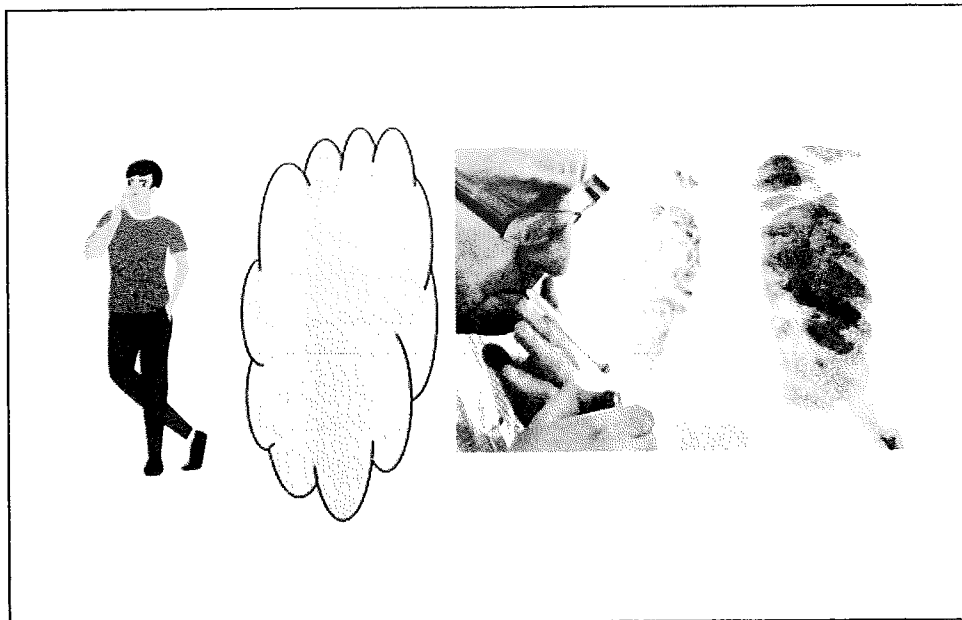


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The Price of Smoking – Time Compression

What if . . .





Externality defined by *bodily health effects*?

A health cost generated by a first person that a 3rd person pays for . . . *later* . . . so it's *hard to identify the cost* . . .

The first actor can be me – at age 20
The 3rd person can be me again – but at age 55 or 65

LD 1215 is a:

- Regulation or Rule – of a Negative *Health Externality*.

As a steward of the public health, I ask this committee to consider strong support for LD 1215 as you forward it on to the legislature as a whole.

Thank you,

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