

18 February 2011

**Submission on the Alcohol Reform Bill**

To the Justice and Electoral Committee

**Personal details**

This submission is from Dr. Eric Crampton, Senior Lecturer, Department of Economics and Finance, University of Canterbury, Christchurch, New Zealand.

I have consulted with other members of the Economics Department here at Canterbury, folks at Treasury, as well as with members of the broader Economics community and public regarding measures of the social costs of alcohol, both through my blog, *Offsetting Behaviour*, and in presenting my work on the topic at conferences in New Zealand and Australia. While I do not claim to speak for any of these organizations, Dr. Andrea Menclova and Mr. Paul Walker at the University of Canterbury, and Mr. Matthew Burgess of the Institute for the Study of Competition and Regulation, have specifically lent their support to this submission.

I am happy to appear before the committee to speak to my submission should the committee wish me to do so; I do not request an appearance before the committee otherwise.

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## Submission

1. I oppose the intent of this bill because it seeks to alleviate a problem that has largely been overstated. While alcohol abuse does cause many problems, measures of the costs of these problems are deeply flawed and severely overstated. Further, unless policy is highly targeted against the drinkers that do impose serious and real harm on others, the Government risks penalizing moderate drinkers whose consumption not only provides them real enjoyment but also is associated with moderate health benefits.

## There is no pressing problem to be addressed

2. The explanatory note accompanying the legislation suggests alcohol abuse is implicated in a high proportion of criminal offenses and imposes large costs on the taxpayer.
3. The New Zealand Police do not record whether alcohol caused any particular crime. The Law Commission's report, *Alcohol in our lives*, presented no evidence that would allow us to determine the proportion of alcohol-related offenses that were in fact caused by alcohol. It will certainly be true that many offenders appearing before the Court will present with alcohol abuse and addiction issues. The Law Commission reports for example that about a third of offenders in assaults had consumed alcohol. But what proportion of those offenses would have disappeared absent alcohol? Measures of the costs of alcohol relied on by the Commission assume that a large proportion of such offenses would not occur absent alcohol – that alcohol is causally important. But they present no evidence allowing such conclusions. Similarly, should we conclude that alcohol causes a lot of domestic abuse, or that those who like to abuse their spouse and children also like to drink? We simply cannot draw the kinds of causal conclusions asserted in the Bill's explanatory note without serious and difficult research that has not been undertaken. It is certainly likely that alcohol contributes to some offenders' offending in a causal way. But the figures reported by the New Zealand Police and the Law Commission represent only correlations, not causal relationships, and consequently overstate the harms that could be avoided in the absence of alcohol. Without understanding the direction of causation, the risk this legislation runs is that it produces cost but no benefits, and may even increase costs through unintended effects, which I discuss below.
4. The explanatory note cites costs to the government of \$1.2 billion per annum. The figure most likely derives from BERL's 2009 estimate of the social costs of harmful alcohol use: at page 76, they cited tangible costs to the government of \$972 million from alcohol use and \$284 million from joint abuse of alcohol and other drugs. BERL's figures here are enormously overstated. Matthew Burgess and I examined the BERL study in rather great detail, issuing a working paper critiquing their findings. The Committee might wish to note the following:
  - a. BERL cites a cost to the government of \$464.9 million in labour costs – taxes on labour income. BERL's estimate of the cost of lost labour requires that any worker who dies early can never be replaced by an unemployed worker: that the output that would have been produced by a deceased worker could never otherwise have been produced. The

method they used in deriving this figure is unsound. We found that only \$558.7 million could properly be described as earnings forgone by workers due to excess alcohol use. Even if none of those workers were replaced and they each paid an average tax rate of 33% (rather than a marginal tax rate of 33%), that still would provide a figure less than half of BERL's estimate.

- b. They cite crime costs of \$367.8 million. How did they derive this figure? From a survey asking prisoners whether alcohol had contributed "Entirely", "A lot", "Somewhat", "A little", or "Not at all" to their offending. If the prisoner said "somewhat", BERL assumed that the crime was entirely due to alcohol. This is wholly implausible.
- c. Their measured health care costs include the cost of harmful alcohol use but explicitly sets to zero any potential health benefits from drinking.<sup>1</sup> This matters because even heavy harmful drinkers can have reduced risk of coronary heart disease. Heavy drinkers impose net costs on the health system. But BERL overstates those costs by leaving aside those measures on which drinkers have lower costs. By way of illustration, assume that a heavy drinker costs the health system an extra \$500 per year in liver-related disorders but saves the health system \$100 per year in reduced coronary disorders. The proper measure of net costs would be \$400, but BERL reports \$500. Further, by focusing on heavy drinkers, they ignore the savings that moderate drinkers provide to the health system.
- d. Our correction of BERL's total estimates found that rather than imposing a \$4.8 billion annual cost on society, drinkers imposed an external cost slightly below the amount of excise tax they paid the government. In other words, drinkers pay their way. A study by Treasury in 2002 came to a similar conclusion to ours.<sup>2</sup>
- e. The Law Commission employed Australian consultants Marsden Jacob and Associates to evaluate our work. Their report severely mischaracterized our method. Where they asserted our figures relied on overestimates of the health benefits of moderate drinking, we had actually made no accounting for health benefits of moderate drinking; rather, we noted that such correction would further reduce our estimate. They further asserted that we used a method – ignoring "fiscal externalities" – of which Treasury would disapprove. In actuality, our report fully included those figures but noted in a one-paragraph robustness check at the end of the document what the numbers would have

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<sup>1</sup> The health benefits of moderate alcohol consumption are now well established in the empirical literature. The most comprehensive survey is by Castelnuovo and Donati (2006) "Alcohol Dosing and Total Mortality in Men and Women," available from <http://archinte.highwire.org/cgi/content/abstract/166/22/2437>

<sup>2</sup> Barker, Felicity, (2002), "Consumption Externalities and the Role of Government: The Case of Alcohol," *New Zealand Treasury Working Paper 02/25*.

looked like had we used that alternative, potentially less preferred, approach.<sup>3</sup> I have attached my submission to the Law Commission, little of which was adequately addressed in the Law Commission's report.

5. The legislation is predicated on that there is a serious problem with youth drinking caused by the lowering of the drinking age. The 2010 Social Report for New Zealand<sup>4</sup> noted that "potentially hazardous drinking" among 15-24 year olds in 1996/1997 was 40.8%. In 1999, the minimum age for alcohol purchase dropped from 20 to 18. The rate of "potentially hazardous drinking" in 2002/2003 was 38.7% and in 2006/2007 was 41.1%. The increase in the rate of potentially hazardous youth drinking consequent to the change in the drinking age is smaller than year-on-year changes. Similarly, the Ministry of Justice found only a trivial increase in the proportion of disorderly behaviour offences being committed by 18 and 19 year olds with the reduction in the alcohol purchase age.<sup>5</sup> Why does the Government believe that returning to a drinking age of 20 will reduce problems associated with potentially hazardous youth drinking when youth drinking did not change? The Law Commission report makes much of the horrors of youth drinking but does remarkably little to show that the reduction in the alcohol purchase age was to blame. We might then wonder why an increase in the purchase age will bring substantial benefits.

#### **Some proposed remedies may do harm**

6. Restrictions on permitted trading hours can cause problems where patrons of several bars all disgorge onto the streets at once, increasing the potential for adverse neighborhood effects.<sup>6</sup>
7. Provisions making it more difficult to open on or off license facilities may confer local monopoly rents to those with existing licenses.
8. Provisions allowing greater local body discretion in placing restrictions on license issuance invite lobbying of local bodies by those with licenses against the issuance of new licenses.

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<sup>3</sup> More detailed critique is available at <http://offsettingbehaviour.blogspot.com/2010/04/marsden-jacob-on-alcohol.html> and <http://offsettingbehaviour.blogspot.com/2010/04/marsden-jacob-review-continued.html> .

<sup>4</sup> <http://www.socialreport.msd.govt.nz/health/potentially-hazardous-drinking.html>

<sup>5</sup> "Young people and alcohol: Some statistics to 2003 and 2004 on possible effects of lowering the purchase age". Available at <http://www.justice.govt.nz/publications/global-publications/y/young-people-and-alcohol-some-statistics-to-2003-and-2004-on-possible-effects-of-lowering-the-purchase-age/4-indicators-of-alcohol-related-offending-by-those-under-20-years-old-and-all-ages-disorderly-behaviour> . They note an increase in the number of youths arrested, but this can hardly be attributed to the change in the drinking age if the proportion remained constant: total numbers of arrests at all ages increased. Eighteen and nineteen year olds accounted for 18.6% of disorderly behaviour convictions in 1998 and for 18.7% of convictions in 2004.

<sup>6</sup> Briscoe, Suzanne and Neil Donnelly. 2001. "Temporal and regional aspects of alcohol-related violence and disorder". *Alcohol Studies Bulletin* No. 1. Available at [http://www.popcenter.org/problems/assaultsinbars/PDFs/Briscoe&Donnelly\\_2001a.pdf](http://www.popcenter.org/problems/assaultsinbars/PDFs/Briscoe&Donnelly_2001a.pdf) . See also Dehan, Ann. 1999. "Alcohol and Crime: Taking Stock." Home Office. Available at [http://www.popcenter.org/problems/assaultsinbars/PDFs/Deehan\\_1999.pdf](http://www.popcenter.org/problems/assaultsinbars/PDFs/Deehan_1999.pdf)

9. Restriction on sale promotions by off-licensees, presumably directed at supermarket sales, hinders price competition among supermarket retailers. It is odd that such provisions are directed at off-licensees: individuals buying on special at an off-license are far more able to store the purchased alcohol and consume it over time than are consumers at an on-license premise.
10. The proposed remedies do not seem well targeted at heavy problem drinkers. A small minority of problem drinkers imposes serious costs on the rest of the country through crime and drink driving. Reducing the number of liquor outlets and restricting trading hours seems unlikely to affect this group. Heavy drinkers are the least responsive to measures that increase the cost of their drinking: the best evidence suggests that a given price increase will decrease a heavy drinker's drinking by only about sixty percent of the amount by which it decreases a moderate drinker's drinking.<sup>7</sup> The legislation does not propose increased taxes, but increases in the cost of acquiring alcohol would have a similar effect unless there are other significant differences between problem and moderate drinkers. If it is the case that heavy drinkers are substantially poorer and have less access to transport, making it harder in general to purchase liquor may differentially affect that cohort of drinkers. But this targeting is weak and indirect at best.

#### **Some alternative solutions have been ignored**

11. If Parliament is seriously concerned about harms associated with under-aged drinking, raising the purchase age and imposing penalties on those supplying liquor to minors seems far less likely to be effective than imposing a penalty by way of infringement on minors found to be in possession of alcohol. The Law Commission worries that penalties on minors may make minors reluctant to call emergency services in case of need; however, if the penalty is for being in possession of alcohol rather than simply having consumed it, youths can fairly easily dispose of the alcohol in their possession should a call to emergency services be required. The primary effect of punishing minors found in possession of alcohol would be to reduce the external costs imposed by drunken youths: if a police bust of a noisy party would draw a lot of fines for those there found in possession, youths might well be more discreet about their drinking. Police would also have discretion to ask youths to pour out their liquor if found in possession lest they draw infringement notices, or to impose fines if the youths were actually being a nuisance. This again encourages youths to be more discreet and to impose fewer costs on others. Canada has a very similar regime for minors found in possession of alcohol.
12. Similarly, if Parliament is concerned with the costs of disorderly behaviour by those intoxicated, why not encourage greater enforcement of current legislation? Disorderly Behaviour is an offence under section 3 of the Summary Offences Act 1981. Rather than setting blanket regulations that affect all drinkers – like national closing times and greater regulation of

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<sup>7</sup> Wagenaar, Alexander et al. 2008. "Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies." *Addiction* 104: 179-190. Available at <http://onlinelibrary.wiley.com/doi/10.1111/j.1360-0443.2008.02438.x/pdf>

licensees – why not target enforcement against those who are demonstrably imposing costs on others?