

ALCOHOL IN THE ECONOMY: ISSUES AND OPPORTUNITIES

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This paper's focus on future economics factors which will influence drinking patterns are intended to be a background to the policy objective of minimising harm from alcohol misuse. I shall refer more often to reducing 'unsafe drinking' which is where there is a potential to generate harm even though on many occasions the harm does not actually occur. Safe and unsafe drinking is sometimes distinguished by a measure of 'risky' drinking, the number of standard drinks in a drinking session (with different levels for men and women). While a useful statistical distinction, and a helpful rule of thumb, the limits of safe drinking are dependent upon many more factors than can be captured by such a risk measure.

Globalisation

Increasing globalisation – the closer integration of economies, and the resulting consequences – provides a context to all our thinking about the economic future. Much of the public perception of globalisation focusses on particular aspects – such as 'free' trade. Underneath this is that the cost of distance is falling making economic intercourse across borders easier.

The implications for the production, sale and consumption are complex. First, much of the world's liquor industry is likely to concentrate into a few large multinational companies who will penetrate markets that are currently largely isolated from the rest of the world. Often their aggressive cutting of prices, intensifying of marketing, and opening of access will increase liquor consumption in those markets. Nevertheless, there will remain niche markets for the boutique liquor suppliers, as we see today with specialist breweries and vineyards.

But it will not only be supply that will change. Lower costs of distance means that social and cultural intercourse will be easier too. Drinking trends in one country will influence others. We see this in the rise of teenage drinking across many countries in the last decade. Whatever the social influences for this trend, they cannot be unique to each location, nor are they independent of one another.

The policy implications for this globalisation are twofold. First, those concerned with the alcohol control cannot deal with their local circumstances in isolation. It may not be a matter of just observing the international context, but it probably requires some international

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coordination. This conference with its Trans-Tasman dimension is an example.

A particular problem is that insofar as different countries have different taxation regimes on alcohol for social control purposes, there will be constant friction at the borders, an issue nicely illustrated at the conference by Ann Hope's paper on the European Union.

Second, the influence on the multinationals on the drinking environment cannot be ignored. Those concerned with alcohol control will have to decide how they are to relate to the multinational producers and distributors of alcohol. I shall have more to say about this at the end of the presentation.

Demography

The main demographic shift for countries like Australia and New Zealand will be the aging of the population, as the proportion in the older groups rise relative to the younger groups. Since these older people drink relatively less than younger people, per capita consumption of alcohol may decline.

But the numbers, if not the proportions, of those in the heavy drinking age groups – currently from 17 to 27 years in New Zealand – are still going to rise. If they continue their current drinking habits the total amount of alcohol misuse will rise.

The assumption that the heavy drinkers will continue their current drinking habits may not be true either. The already mentioned trend in most rich countries for earlier teenage drinking and more of it, raises the likelihood of increased unsafe drinking. It is also possible that the peak drinking which currently falls off from the mid-twenties may be prolonged into the late-twenties.

We need to avoid a static view, for there are cohort effects. Teenagers who learn bad drinking habits in the 1990s, may be heavy drinkers in the 2000s, teach by example unsafe drinking habits to their children in the 2010s, and then scold them in the 2020s when those children repeat their parents' behaviour.

Another implication from the aging population is that rich countries are likely to part make up the youth deficit from aging, by immigration of younger people from poorer countries – in Australasia's case that is presumably mainly Asians: the Pacific Islands will not be able to supply enough. This yellowing of the population places a large number of challenges on the host nations, including in regard to alcohol consumption.

It would be racist to say the new citizens have inferior drinking habits to the longer established

ones, although it seems biologically possible that some may react differently to alcohol. What we can be sure is that coming from different cultures, many will have different drinking habits and that they will have great difficulty acculturating their young into the new drinking environment of the host country. That means public health programs – be it on the safe use of alcohol or anything else – will often have to be adapted for the cultural nuances that the new citizens present.

There is an underlying message in this demography section. Population based health policies – of which the promotion of sensible alcohol consumption is a prime example – can no longer simply be based upon targeting the entire population. There are two reasons for this.

First, our populations are becoming increasingly heterogeneous. It is partly a consequence of the affluence I am going to talk about shortly and partly because we are more tolerant of difference – or at the very least we have embarked upon a social system which allows and generates differences.

Second, we may have exhausted all the effective population wide programs, or they have become politically difficult to implement because of their differential impact on the different groups in the population.

Fortunately, we are often getting better data about the various fractions of the population, which forms an empirical foundation for this group targeting. Many of these targeted policies are not much to do with economics, but I am going to illustrate the principle with economic ones that are.

Affluence

It is possible that real incomes will stagnate or even fall over the next few decades. However the following is based on the conventional view that incomes will continue to rise for most fractions of the population, albeit to different extents.

Do higher incomes result in a tendency to drink more alcohol? It is an important for alcohol policy to recognise the question is ambiguous. Alcohol has two meanings which are frequently confused in economic analysis. It may mean ‘the alcoholic beverage’ or it may mean ‘absolute alcohol’.

Now it seems likely that expenditure on alcoholic beverages will rise with increasing affluence. But in many cases there will not be a marked increase of the consumption of absolute alcohol. Rather many people will consume more higher quality alcoholic beverages. (Economists avoid giving a precise meaning of ‘higher quality’. For our purposes it is that the

unit cost of absolute alcohol rises.) Spending more on quality but not quantity should not increase unsafe drinking.

On the other hand, there are people who with higher incomes will consume more absolute alcohol, and some of this additional consumption will involve unsafe drinking. The most obvious example will be where the globalised liquor companies penetrate into third world markets where consumption is currently low and incomes are rising. Within rich countries such as in Australasia, rising affluence leading to rising absolute alcohol consumption is likely to be most important among teenagers (and alcoholics insofar as they experience higher incomes). It is probably one of the explanations for the rising teenage consumption over the last decade.

Now we cannot do anything much about this rising affluence, nor might we wish to. But it alerts us of one of the drivers for increased teenage drinking over which we have little control, and reminds us the task is not to prevent teenagers from drinking, but to curb unsafe drinking.

Prices and Taxes

The distinction between expenditure on alcoholic beverages and absolute alcohol becomes even more important when we consider the impact of prices and taxes on alcohol consumption. Unfortunately most of the systematic empirical research tends to equate the two, so it ambiguously answers the question ‘Do higher prices result in a tendency to drink less absolute alcohol?’

So let me conjecture, using that the division I have just made between those with income responses that exchange expenditure but not the quantity of absolute alcohol consumed, and those who change both. (It is a conjecture which derives from the economist’s theory of consumer behaviour which links price and income responses.)

Those whose absolute alcohol consumption is insensitive to changes in their incomes, are also likely to be insensitive to changes in prices. If the price of the beverage goes up, say from a higher excise tax on alcohol, than they are likely to shift down to a lower quality beverage without markedly changing their consumption of absolute alcohol.

On the other hand, those who are income sensitive to absolute alcohol consumption are also likely to be price sensitive. We know this is true for teenagers. Higher excise taxes on absolute alcohol raises the price of their liquor and they consume less.

This does not mean we have a simple effective policy instrument to control teenage drinking.

We cannot impose excise taxes on their drinking but not on others. The rest of us resent high prices for our alcoholic beverages, reducing the political effectiveness of the policy. Moreover, as teenagers become more affluent the price hike strategy becomes ineffective. That situation already applies for many of those a decade older, where some of the most unsafe drinking occurs.

In any case, we are not trying to stop teenagers and others from drinking alcohol, we are trying to stop unsafe drinking. That may involve their reducing their absolute alcohol consumption but that is a consequence of the strategy, not its purpose.

The implication is that economic policies have only a limited role in reducing unsafe drinking. They are a part of, but not the heart of, any behaviour change strategy. Nevertheless excise duties on absolute alcohol can be a useful part if they are cunningly designed.

I talking about this design in *Taxing Alcoholic Beverages in New Zealand*, another paper I presented to the conference. I summarise its contents here, building on the analysis I have just been through.

It begins by observing that those whose absolute alcohol consumption is most likely to be affected by excise taxes, are those who are paying the lowest price for their absolute alcohol. This suggests that policy should target the minimum price of absolute alcohol, not the average price. Insofar as we want to reduce unsafe drinking we should aim to raise the minimum price of absolute alcohol with as little impact as possible on the price of other alcoholic beverages (especially if we want to minimize the political impact of the policy on the broad population). This leads to the practical conclusion that the effective excise duty would be levied on the level of absolute alcohol.

The effect of such a policy is to reduce the consumption of absolute alcohol of those we think are most prone to problematic drinking: teenagers, heavy drinkers and alcoholics. However such a policy will not by itself eliminate all unsafe drinking, and we have to look at other behaviour change measures.

Packaging

Now economists are not particularly knowledgeable about other measures to change behaviour, and I could stop here. Except we have been fiddling about recently in one area, which is of interest in itself and leads me to my final topic. It arises from, what for economists, is the curious phenomenon of lack of self control. Let me go direct to a policy conclusion. Can we influence consumption by the choice of packaging?

For starters, I wish I could purchase 600ml bottles of wine, particularly in restaurants when I'm driving and my companion is a woman. Sure we could leave the last fifth of the bottle, but even if the waiter does not pour it out first, I lack the self control, especially after having been taught to 'eat it all up'.

Why should the liquor business bother respond to my needs? Well, I would probably spend the same amount on a 600ml bottle as I would on a 750ml, moving up the quality hierarchy, albeit drinking less absolute alcohol. Top quality wine producers have a real incentive to provide more smaller containers because I will purchase more of their product.

This brief example illustrates that container sizes matter. Does it matter for unsafe drinking? Go into a store for beer, and there are convenient six-packs. You may, at this stage, think four cans appropriate, but you have to purchase the six-pack and later in the evening you lose self control and consume the lot.

We need to put in some solid behavioural research to see whether more appropriate container quantities would result in less unsafe drinking. Economics suggests it might: it may be our one contribution to the key area for safer drinking behaviour over the next two decades.

The Liquor Industry

But what about the liquor industry? Is not their interest to push as much absolute alcohol through the alimentary tracts of the nation as possible? Well no. Their ultimate interest is making profits, like any good capitalist firm should, and if they can make more profits by a higher price per unit of absolute alcohol via better quality liquor, then that is the track they will go down.

Thus the industry's attraction to the four pack over the six pack is that it may be selling a better quality alcoholic beverage – by which an economist means the price is higher. The industry benefits if the total profit from the four-pack is more than for the six-pack.

It may not be easy for those dealing with the alcohol abuse to be too cosy with the liquor industry – the supping spoon may have to be long. But rising affluence creates the opportunity for a mutually beneficial outcome if the objective is not to limit expenditure on alcoholic beverages or even reduce the consumption of absolute alcohol, but to reduce unsafe and problematic drinking.

Conclusions

To summarise briefly my main themes.

1. Globalisation will result in increased interaction of attitudes and behaviour between national drinking cultures, as well as a globalised liquor industry.
2. Despite the aging of the population there is a case for increased efforts to improve drinking behaviour among younger age groups.
3. Cohorts move through various drinking stages, passing their behaviour on to younger cohorts.
4. There is increasing social heterogeneity, including the arrival of immigrant groups with different drinking cultures.
5. Affluence may not increase the consumption of absolute alcohol except among the young.
6. With rising affluence, excise taxation may become less effective in reducing the consumption of absolute alcohol. It should be targeted on the minimum price of absolute alcohol.
7. However, while taxation may assist reducing unsafe drinking, other behaviour measures are likely to be more important. The paper instanced the possibility of packaging as a strategy.
8. Those aiming to reduce unsafe drinking and the liquor industry may have a common cause in a social environment where the focus is on higher quality (more expensive) alcoholic beverages rather than increased absolute alcohol consumption.