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SOCIAL COST OF ALCOHOL CONSUMPTION OVERBLOWN

New research has shown the social cost of alcohol to the Australian community has been substantially over-estimated.

Recent estimates put the annual cost at more than \$15 billion¹, but a paper to be unveiled by economist Dr Eric Crampton of the University of Canterbury at a conference in Canberra next week exposes flaws in the methods used to determine this figure, concluding that at least 75 per cent of this figure would be dismissed by mainstream economic method.

The new report shows that “at most, only \$3.8 billion of the headline figure can count as costs borne by such external parties”.²

“The \$15 billion estimate of the annual cost of alcohol is meaningless from an economic and policy perspective, and the use of this figure must now be abandoned,” said the Chair of the National Alcohol Beverage Industries Council (NABIC), Peter Hurley. “Continued reliance on it to justify further regulation will result in a misallocation of resources and effort.

“This new research using a more rigorous method exposes previous findings by academics of a \$15 billion figure as alarmist.

“These academics have failed to apply mainstream economic modelling to calculate the cost of alcohol and it’s time that governments and others involved in public policy recognised this.

“In the past 15 years, there has been no analysis of the benefits of consuming alcohol.”

The new analysis by Dr Crampton, Matt Burgess of the Institute for the Study of Competition and Regulation and Brad Taylor from the Australian National University states: “No estimate of any activity’s value, and no policy implications, can be derived from an assessment limited to the downside risk of an activity. The healthist literature passes off headline costs as representing value.”³

“The Henry Review also advocates that tax on alcohol should reflect the spillover costs of alcohol consumption in the community,” Mr Hurley said. “This means calculating costs and benefits, using mainstream economic method.

¹ The avoidable costs of alcohol abuse in Australia and the potential benefits of effective policies to reduce the social cost of alcohol 2008, David Collins/Helen Lapsley, Page ix

² The Cost of Cost Studies 2011, Eric Crampton/Matt Burgess/Brad Taylor, Page 31

³ The Cost of Cost Studies 2011, Eric Crampton/Matt Burgess/Brad Taylor, Pages 17/41

“Given the cost per annum of alcohol is no more than \$3.8 billion and the comparable tax take on alcohol is more than that amount, there is no justification for increasing the size of the Government revenue pie.

“There have been even more bizarre figures of alcohol having a social cost of \$36 billion coming from the anti-alcohol movement.

“Clearly we should leave this to experts in economics, rather than health advocates.

“The vast majority of Australians enjoy consuming alcohol in a responsible manner.”

NABIC’s position is supported by the new analysis: “Where aggregate annual Australian alcohol excise and customs revenues exceed \$4 billion, the case for higher taxes and more stringent regulation seems weak.”⁴

For further information, to obtain a copy of the research working paper, a summary of the working paper or to arrange interviews with Eric Crampton and Peter Hurley:

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⁴ The Cost of Cost Studies 2011, Eric Crampton/Matt Burgess/Brad Taylor, Page 32