

The economic impacts of a European alcohol policy

Support to the impact assessment of DG SANCO

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Eurocare Bridging the Gap (BtG) Project
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Structure

- Status of this research
- General approach
- Conceptual approach
- Main specific impacts
- Comparison of policy options

Status of this research

- Proposed communication on alcohol policy
- All major proposals must have evidence-based ex ante impact assessment
- DG SANCO is responsible for the impact assessment
- RAND contributes

General approach

■ Steps:

 Define the problem

 Identify likely impacts and stakeholders involved

 Predict the direction and order of magnitude of an impact

 Try to quantify impacts

 Make a balanced assessment across all options

■ Social, economic, environmental, sustainability impacts

■ RAND focused entirely on macroeconomy and alcohol industry

Policy options

■ Four policy options

 No change in policy

 Coordination of activities at EU level

 A comprehensive strategy

 A purely regulatory approach

■ Deregulation is not an option

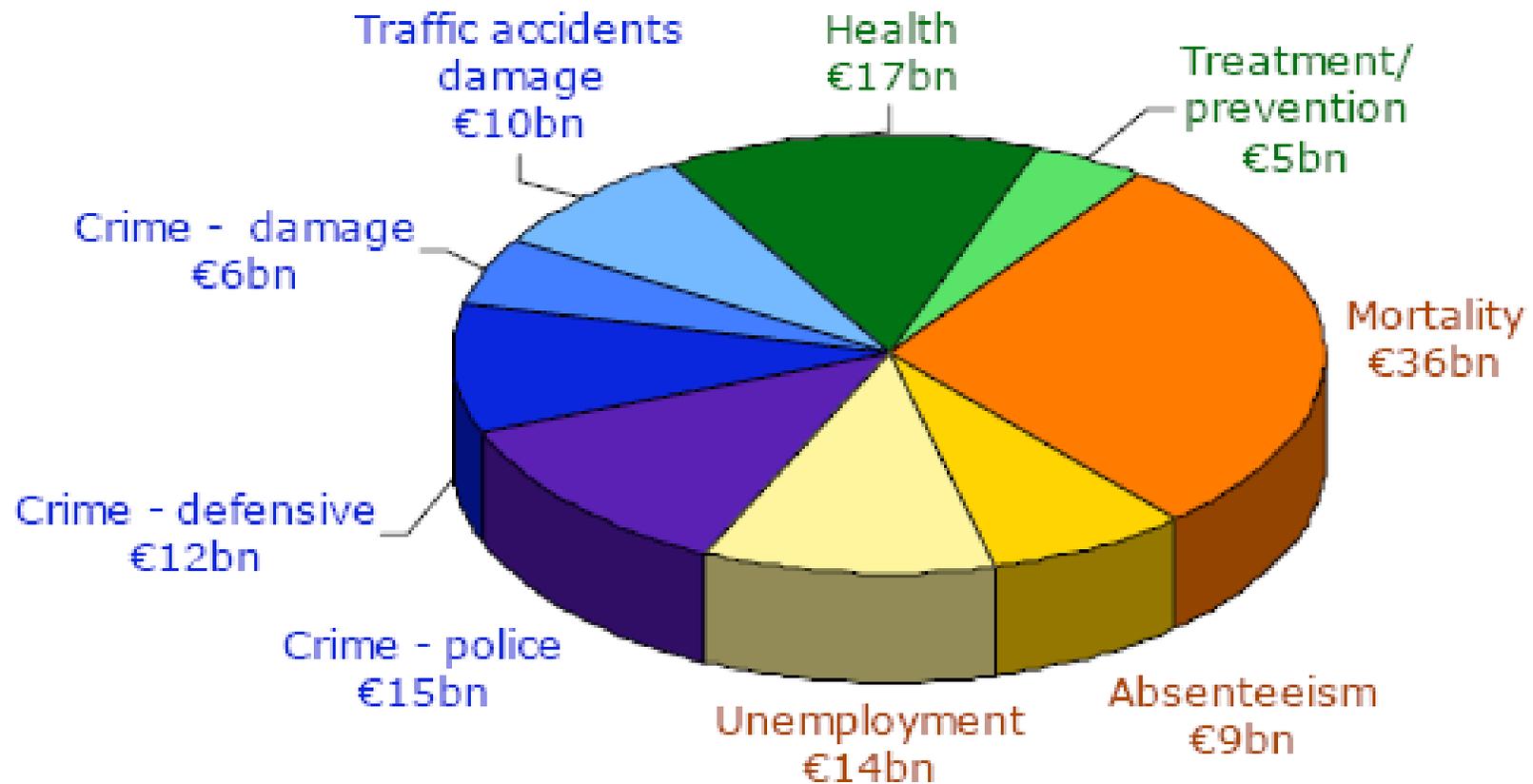
Big questions

How do the harmful effects of alcohol use affect the macroeconomy?

What will happen if alcohol policy is successful?

Which options has the highest net social benefits?

National costing studies do not suffice



Anderson and Baumberg 2006

Four key concepts

 **Total output:** economic analysis only looks at tangible costs; intangibles not unimportant

 **Productivity:** quantity and quality of labour, quantity and quality of capital, ratio of capital to labour, the efficiency of production

$$Y = L^{\alpha} K^{\beta} \varepsilon$$

Four key concepts

 **Total output:** economic analysis only looks at tangible costs; intangibles not unimportant

 **Productivity:** quantity and quality of labour, quantity and quality of capital, ratio of capital to labour, the efficiency of production

 **Opportunity costs:** money spent on alcohol-related health care, traffic accidents, crime, and other effects might be used more productively elsewhere in the economy

 **Competitiveness:** effect through productivity; regulatory burden and public investments as determinants of company location

Impacts per domain: productivity

- On individual or microeconomic level clear evidence of link between alcohol use and productivity

- Not on macroeconomic level – National costing studies overestimate effect:
 - Assumption of full employment
 - Diminishing marginal returns to labour
 - Impact on average productivity and capital/labour ratio

- Impact on growth, development and competitiveness not significant, but does involve large amounts

Impacts per domain: opportunity costs

Health care

- unlikely to free resources for use outside health care
 - reallocation of resources within the health care sector
 - long run benefits to economy of better health
-

Crime

- reduction in property damage
 - reallocation to other crimes, not to productive purposes
-

Drink driving

- lower property damage
 - time savings
-

Pensions

- lower premature mortality, more people reach retirement age
 - burden on pension funds will increase
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Insurance

- lower premiums unless risks internalized and with time lag
 - no significant macroeconomic impact
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Comparing options: basic principles

Option 1 No change	No decline in the harmful effects of alcohol use
Option 2 Coordination	Probably more efficient version of option 1, but no structural improvement in alcohol policy
Option 3 Comprehensive	Potentially most efficient and effective, combining policies to lower alcohol use with activities aimed at behavioural change
Option 4 Regulation	Lower alcohol use through stricter regulation and enforcement, but without supporting information and education campaign

Comparing options: impacts per domain

	Option 2: Coordination	Option 3: Comprehensive framework	Option 4: Regulation
Productivity			
Labour	(+)	+	(+)
Opportunity costs			
Health care	=	+	+
Pensions	=	-	(-)
Crime and violence	=	++	(+)
Drink driving	=	+	++
Competitiveness, public revenues, and the alcohol industry			
Competitiveness	=	+	(+)
Public revenues	=	(+)	+
Performance of the alcohol industry	(+)	(+)	--
General assessment			
	the efficiency of current policies and intervention increased with coordination	focus on behavioural aspects of alcohol use more than use itself improves the potential for a sustainable impact	tackles use more than behaviour and focuses on compliance rather than encouragement

Assessment

- **Option 2:** perhaps more efficient, but few clear benefits
- **Option 4:** clear benefits (e.g. public revenues), but only somewhat positive for productivity and competitiveness and negative for alcohol industry; risk of non-compliance and high costs of enforcement
- **Option 3:** appears to provide more macroeconomic and sectoral benefits than the other two options; better opportunities for synergy; effective combination of “hard” and “soft” policy instruments
- **Option 3 dominates options 1, 2, and 4**

Thank you for your attention



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Alcohol industry

- Modest contribution to EU25 GDP (<1%)
- But still involves c. €45 billion and >1 million jobs
- Industry is concentrated in 10 Member States

Trade-offs and synergies

■ Trade-offs:

- Health improvements raise quality of labour and lower absenteeism and premature mortality
- This adds to pressure on pension funds
- Longer life expectancy means that in the long run more people will require expensive old-age medical treatment, thus raising health care costs.

■ Synergies:

- Rise in public revenues provides resources for better public services (best in option 4)
- Improvements in labour input also benefit alcohol industry and public sector (strongest in options 3 and 2)
- Productivity and competitiveness benefit from health care improvements, the psychosocial benefits of reduction in crime and violence, and gains in drink-driving (strongest in option 3)

Stakeholder analysis

- Most likely and influential supporters of new alcohol policy:
 - Central government
 - National organisations responsible for coordinating activities in alcohol research, prevention and treatment
 - Criminal justice system
 - NGOs

- Most likely and influential opponents:
 - Alcohol industry
 - Position will depend on the impact of the proposed policy on its (future) economic performance

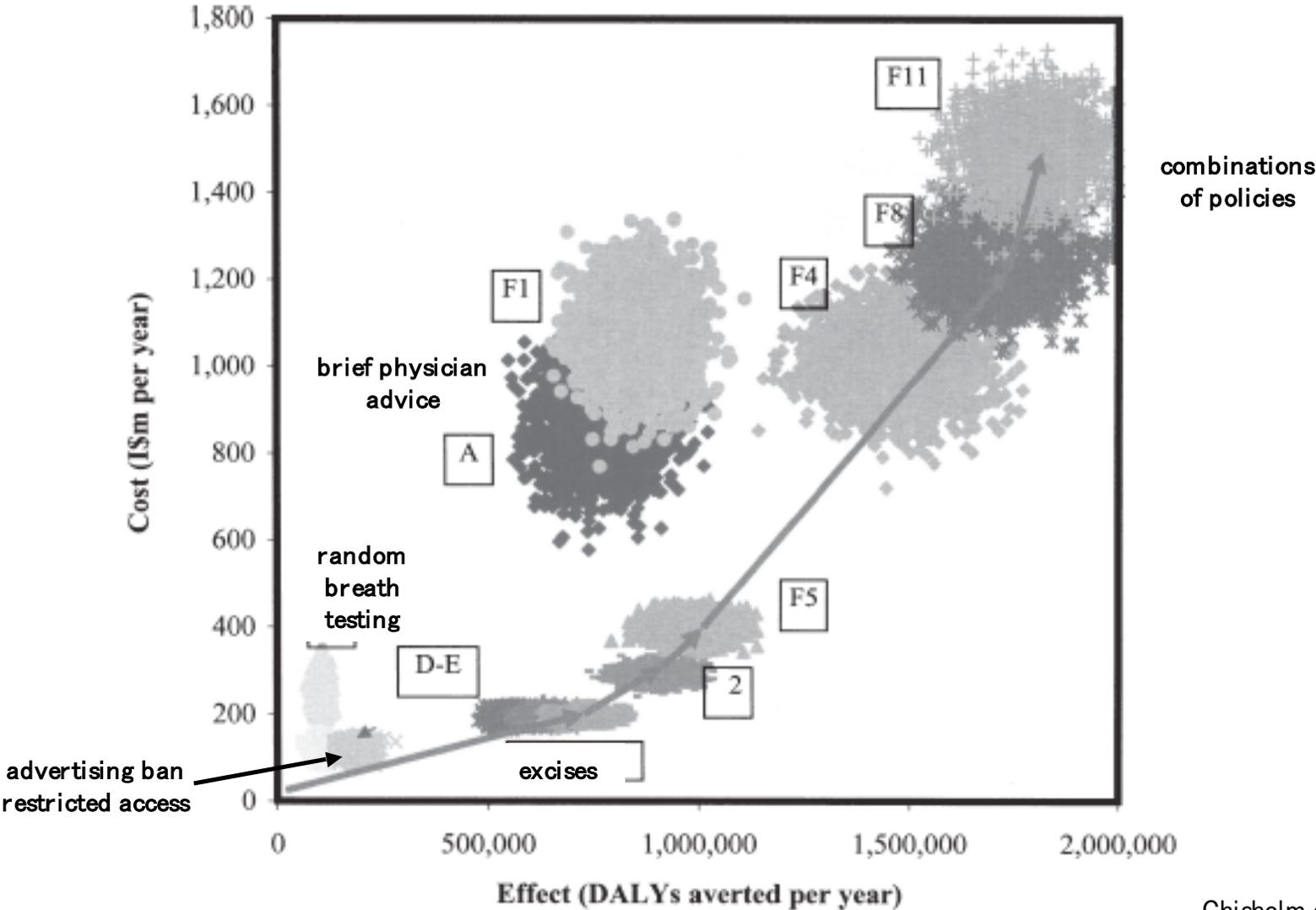
The costs of absenteeism

- Absent for other (non-work-related) health problems:
 - EU15 (2000): 34% of workers for an average of 4.2 days
 - NMS (2002): 19%

- Estimated total costs:
 - Based on GDP per worker: €49 billion
 - Based on GDP per hour: €67 billion

- National costing studies (Anderson & Baumberg):
 - Alcohol-related absenteeism: €9 billion
 - Alcohol accounts for 13% to 18%

Effectiveness and cost-effectiveness



Chisholm et al. 2004



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