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Minimum unit price on alcohol could substantially reduce heavy drinking – study

University of Cape Town (UCT) researchers have published findings from a study investigating the feasibility of a minimum unit price (MUP) on alcohol aimed at reducing the prevalence of heavy drinking.

Reporting their findings in the *South African Medical Journal*, researchers found that if the government were to implement an MUP on alcohol products successfully and effectively, it could substantially decrease the alcohol consumption of regular heavy-drinking households, and to a lesser extent that of occasional heavy-drinking and intermediate drinking households.

The study was conducted by Professor Corné van Walbeek, the director of UCT's Research Unit on the Economics of Excisable Products, and Dr Grieve Chelwa, economist and senior lecturer at the UCT Graduate School of Business.

"Despite the fact that these categories of drinking households are relatively price insensitive, an MUP, levied at an appropriate level, would substantially increase the price. This, in turn, would substantially reduce households' alcohol consumption," Chelwa noted.

In the study, the researchers calculated unit values, defined as total monthly alcohol expenditure per household, divided by the household's total monthly alcohol consumption, for four categories of drinking households (moderate, intermediate, occasional heavy and regular heavy), using wave 4 data (2015) from the National Income Dynamics Study.

A cumulative distribution of the unit values was derived for each of the four categories of drinking households. A number of hypothetical MUPs were imposed, and the impact of these MUPs on the consumption of the different categories of drinking households was estimated, taking cognisance of the fact that the households respond differently to price changes.

Van Walbeek said: "We found that moderately drinking households tend to be more price sensitive than regular heavy-drinking households. Occasional and regular heavy-drinking households comprise a quarter of all households (and half of all drinking households) in SA, but consume 84% of all alcohol consumed in the country."

There are large differences in the calculated average price of alcohol between different categories of drinking households, ranging from R12.00 per standard drink among moderately drinking households to R1.53 per standard drink among regular heavy-drinking households. An MUP of R3.00 per standard drink is estimated to reduce alcohol consumption by 11.9% among regular heavy-drinking households, by 3.1% among occasional heavy-drinking households, by 2.3% among intermediate-drinking households and by 0.3% among moderately drinking households.

If the MUP is levied at a level of R10.00 per standard drink, this is expected to reduce alcohol consumption by 21.8% among regular heavy-drinking households, by 11.6% among occasional drinking households, by 15.9% among intermediate drinking households, and by 6.1% among moderately drinking households.

If the aim of a tax or pricing policy is to reduce consumption by heavy and intermediate drinkers, while having a limited effect on moderate drinkers, van Walbeek said an MUP is more effective than an increase in the excise tax.

"An excise tax increase will cause the prices of all alcoholic beverages to increase, while an MUP would only target low-priced products. Low-priced alcohol products are disproportionately heavily consumed by regular heavy-drinking households, and to a lesser extent by occasional heavy-drinking and intermediate-drinking households," added van Walbeek.

This does not mean that the government should de-emphasise the role of excise taxes in its alcohol policy.

"Both excise taxes and an MUP on alcohol are important components of an effective alcohol policy. The World Health Organization encourages countries to use both. The impact of an excise tax is more broad-based, whereas an MUP is specifically targeted on drinkers who consume cheap alcohol, which tend to be the heavy drinkers," said van Walbeek.

Alcohol continues to play an important economic role in the country. However, the country has a significant problem with alcohol abuse. "Although survey results from SA show that only about a third of adults indicate that they consume alcohol, nearly half of alcohol users reported that they consume five or more standard drinks on an average drinking day," said van Walbeek.

According to the World Health Organization, SA's pattern of drinking is categorised as 'most risky', in the same category as the Russian Federation and Ukraine, among others.

There is an important caveat, warns van Walbeek. Because the demand for alcohol is price inelastic, especially for heavy-drinking households, he said a large increase in the price of alcohol will increase such households' total alcohol expenditure, and therefore the share of alcohol in the total budget.

"Other expenditures would be increasingly crowded out by alcohol. While this does not nullify the effectiveness of an MUP as a policy to reduce alcohol use, especially by heavy-drinking households, it may deepen the financial hardship of such households."

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