

Consumption and taxation of licit and illicit drugs

Tuesday 1:15pm – 2:55pm

Chair: Ken Clements

Director, Economic Research Centre, UWA Business School, University of Western Australia

Policies for reducing the costs of cigarette smoking

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Policies for regulating tobacco smoking in Australia are examined. Cigarette management policies need to account for the addictive nature of nicotine, information failures and the existence of externalities and internalities. The external costs of smoking are low relative to internalised private costs. In so far as externalities do arise they can be addressed by taxes and by direct controls on smoking. If internalised health costs are targeted then taxes and restrictions can be usefully assessed in terms of implied health outcomes. Substitutions toward 'chop chop' and compensatory behaviour by smokers restrict the usefulness of taxes while the existence of NRTs and smokeless tobacco products enhance the case for hefty taxes on smoked tobacco. Adverse effects on low income consumers from high taxes can be offset by income transfers from high income consumers. Smoking behaviour among high income consumers can be addressed using non-price deterrence, such as bans. Policy development is complicated by the existence of distinct groups of users who react differently to incentive.

Beer, wine, and spirits just don't mix: A meta analysis of the demand for alcohol

James Fogarty

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The demand for alcohol literature is vast, and much conflicting information about the nature of the demand for alcoholic beverages has been published. This article presents a survey of the literature, and then uses the technique of meta-regression analysis to gain insights into the nature of the demand for wine, spirits, and beer. Unlike previous meta-studies of the demand for alcoholic beverages this study adjusts for the precision of each estimate. The analysis presented suggests elasticity estimates will be influenced by such factors as estimation technique, data frequency, and time period under consideration. Little support is found for the idea that demand for alcoholic beverages varies between countries.

Why parents worry: Initiation into cannabis use by youth and their educational attainment

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In this paper we investigate the extent to which initiation into cannabis use during youth affects educational attainment. In particular we focus on the relationship between the age at which initiation occurs and the probability of leaving formal education. We find that age of onset matters, with those initiating into cannabis use early in life having a much higher dropout rate than those who start later on. For boys the critical age for starting cannabis use is 17, and for girls it is 19. Initiation into cannabis use beyond the critical age has no adverse affect on educational attainment.

Marijuana and related drug consumption in Australia - some microeconometrics evidence

Xueyan Zhao

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This paper presents some econometric analysis on Australian individuals' consumption of marijuana and related drugs using unit record data from the National Drug Strategy Household Survey. We investigate the effects of individual socioeconomic and demographic factors and drug prices on participation probability and levels of marijuana consumption. We use multivariate probit models to study the relationship of marijuana participation with related legal drugs tobacco and alcohol and illegal drugs heroin and cocaine, accounting for effects of both observable and unobservable personal characteristics on multi-drug consumption. An endogenous switching probit model is used to estimate the effect of marijuana decriminalisation on participation, which allows for potential endogeneity of decriminalisation and flexibility in behaviour. The estimated effect is compared with results from its three nested models (probit, endogenous bivariate probit and two-part switching models) and propensity score matching method.