

The Political Economy of Six O'Clock Closing

Tim Mulcare

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Introduction

Public bars in New Zealand traded from nine o'clock a.m. to six o'clock p.m. from Monday to Saturday between 1917 and 1967, despite the fact that demand was concentrated on five out of six trading days in the hour before closing¹. The statutory closing of bars at six o'clock p.m. in 1917 was initially a wartime regulation to restrict consumption of a narcotic; this paper suggests that it was extended because it was favoured by key interest groups, namely trade unions, hotel owners and prohibition organisations².

Real wages of hotel employees increased under restricted bar trading hours because they worked fewer hours for the same remuneration. When combined with hotel licensing, investment quality fell because of higher search costs represented by limited time under restricted trading hours. Revenues did not fall because aggregate demand for alcoholic beverages was unaffected by shorter trading hours, but costs were lower because of reduced investment in variety, in particular the quality of the drinking experience. Low quality was used to justify political agitation for the more restrictive regulation promoted by prohibition organisations.

¹ A public bar license permits the serving of alcoholic beverages to the public. Bars attached to hotel restaurants were permitted to serve alcohol to hotel diners to eight o'clock p.m. at 1917, eleven-thirty p.m. by 1962. There was no limit to trading hours of private bars permitted to serve alcoholic beverages to hotel guests. From 1967, hotel public bars traded for a maximum of eleven hours per day between the hours of seven o'clock a.m. and eleven o'clock p.m.. Most trading hour restrictions were removed after market liberalisation in 1989. Source: *AJHR* (1975) H-3 p 23.

² There is an extensive literature on regulatory capture, which is concerned with the redistribution of wealth by interests groups using the coercive powers of government. For seminal papers on this, see Stigler (1971) and Peltzman (1976).

The paper is organised as follows. The expected outcomes of six o'clock public bar closure used by the legislature to justify its introduction are discussed in Section II. The gains to interest groups from restricted bar trading hours are detailed in Section III. The reasons why trading hours were extended in 1967 is discussed in Section IV. Section V concludes.

Section II. The Background to Six O'Clock Closing

All alcoholic beverage retailers and retail outlets in New Zealand are licensed; the hotel license was the important class of retail license during the period of six o'clock bar closure. Restrictions on new hotel licenses, and on the transfer of hotel licenses to alternate sites, existed from 1881³. These restrictions concentrated hotels within central business districts⁴.

Prescribed trading hours were one of several conditions of hotel licenses in which non-compliance was subject to license forfeiture without compensation⁵. The public bar trading hours prescribed by the Licensing Act were the minimum hotel trading hours⁶. This is because publicans were required to provide a minimum standard of accommodation, and alcoholic beverages to guests, on demand twenty-four hours a day, seven days a week. The requirement to provide accommodation regardless of the demand for it implied that bar profits typically cross-subsidised hotel accommodation⁷.

³ From 1881 to 1949 new retail licenses were only issued in licensing districts where the population had increased by twenty-five per cent; hotel license transfers between licensing districts were prohibited. Within licensing districts, transfers were limited to a maximum of half a mile (urban licensing districts) or one mile (rural licensing districts) from 1904. Until 1919, any hotel license increase was subject to authorisation by referendum; residential objections remained as a constraint to the siting of hotels. License issue and redistribution from 1949 was controlled by a regulatory agent, the Licensing Control Commission. Restrictions on license issue lowered hotel license density, from .0026 licenses per capita in 1890 to .0006 licenses per capita in 1950. Restrictions on transfer and issue promoted variations in license density, of between 0.004 licenses and 0.00003 licenses per licensing district population in 1945. Source: Bloomfield (1984) p 120; AJHR (1946) H-38 p 26-27, p 197.

⁴ Source: AJHR (1975) H-3 p 33.

⁵ See AJHR (1946) H-38 p 30 and *passim*; AJHR (1975) H-3 p 24. Hotel licenses could also be confiscated without compensation by referendum from 1893 to 1975.

⁶ Prescribed public bar hours provided a minimum utilisation of hotel licenses. This maintained transfer payments made to the issuing authority (licenses were issued, and excises on alcoholic beverages were collected, by the Customs Ministry).

Six o'clock public bar closure preceded by three years a similar statutory closing of all New Zealand urban shops⁸. The rationales used to justify six o'clock shop and hotel closure differed. Statutory retail trading hours were used with the system of arbitration that regulated labour market to shorten the working week; statutes prevented retailers that did not employ regulated labour from trading when regulated labour was not permitted, or was subject to overtime premia. Six o'clock hotel closure was primarily based on a moral argument, namely the ensuing reduction of alcohol consumption and decrease in drunkenness (alcohol in New Zealand is largely consumed in the evening). Exigencies of war were used to justify these and other moral arguments⁹.

Data do not support these arguments for six o'clock bar closure. Restrictions on public bar trading hours had little impact on aggregate and per capita alcohol consumption (Figure 1)¹⁰. Nor did it affect the level of drunkenness; drunkenness convictions per capita fell in 1918 by a similar level to that which occurred in the preceding three years, and increased in the following two years¹¹. Drunkenness was in fact encouraged by the concentration of demand between five o'clock p.m. and six o'clock p.m. on five of the six trading days. Consumers with one hour to drink on licensed premises after work drank very quickly, and often did so on an empty stomach. This increased the absorption of alcohol and hence its narcotic effect¹².

⁷ Source: AJHR (1946) H-38 p, *ibid* (1975) H-3 p 33-35.

⁸ From 1920, shops in urban areas above a population of six thousand closed at six o'clock p.m. on four of six trading days, and at nine o'clock p.m. and one o'clock p.m. on each of the other two trading days. The statutory closure of rural shops was not legislated in part because most rural workers at 1920 were not covered by the system of arbitration that set trading hours: see Mulcare (1999).

⁹ Temperance groups argued that lower alcohol consumption would increase productivity and savings, and lower the incidence of venereal disease amongst servicemen. Similar arguments were used to introduce six o'clock bar closing in the United Kingdom and Australia during World War One. That fiscal authorities accepted that six o'clock closing would lower alcohol consumption is implied by increases to beer excises of 21 per cent and 27 per cent respectively one month and two months before it was introduced. Source: NZPD 177 p 532; NZOYB (1932) p 278.

¹⁰ The market share of beer by alcoholic beverage volume in 1915 was 94%, 92% by 1967. In 1921 beer excises doubled and the rate at which higher excises were levied on beer of a higher alcoholic content fell. This should have caused consumers to switch to beer of a lower alcoholic content, and to consume more beer to obtain equivalent concentrations of alcohol. This was the case after similar tax changes in 1942. Source: AJHR (1946) H-38 p 62-65, p 164-165; Bloomfield (1984) p 120.

¹¹ Source: *ibid*.

¹² See Agarwal and Goedde (1989).

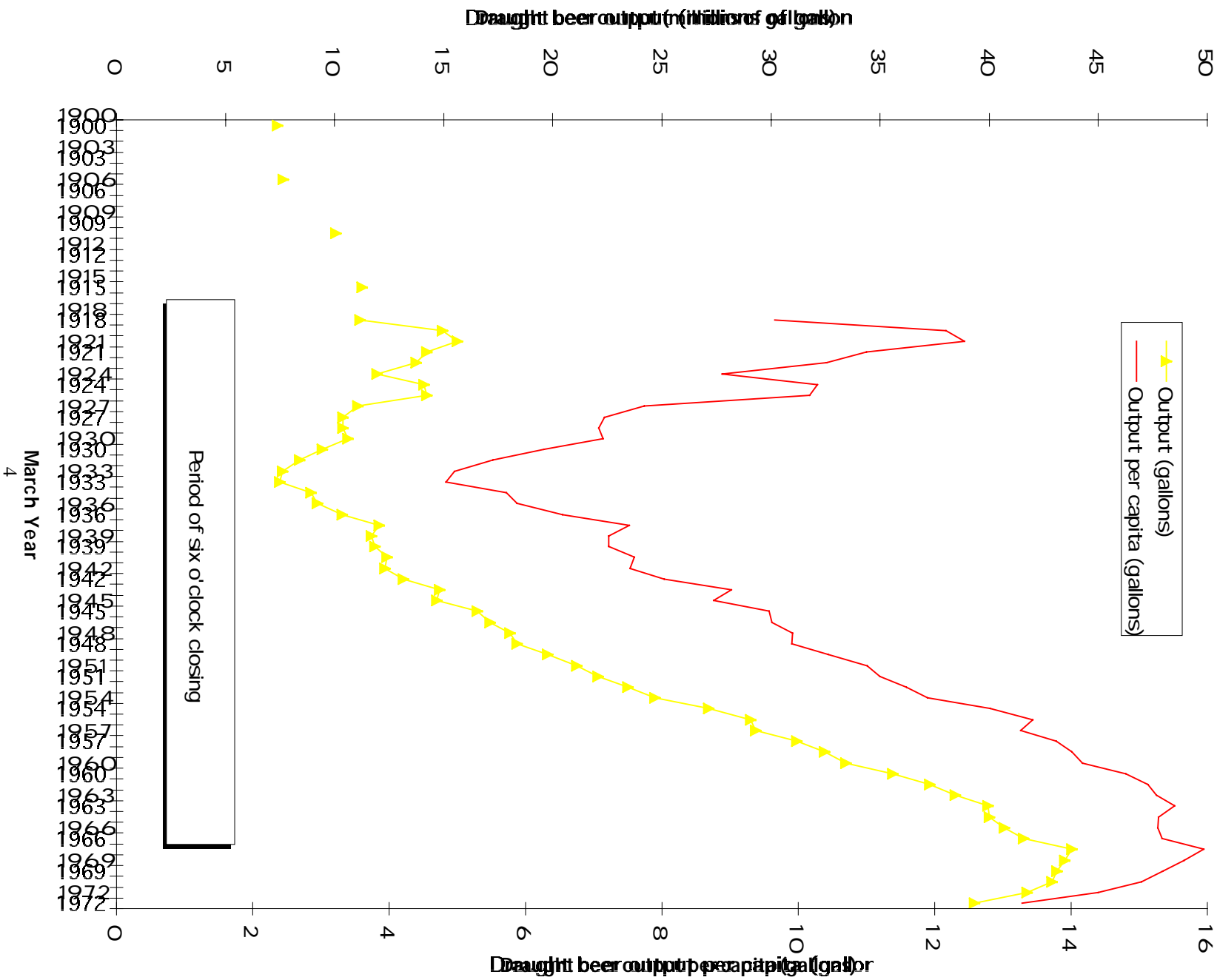


Figure 1

Hotel profits were higher under restricted trading hours. This was acknowledged by publicans, and implied by a fall in hotel profits in 1968 when the closing hour was extended to ten o'clock p.m.¹³. Hotel profits fell in 1968 because increases in revenues did not compensate for the higher labour costs incurred under longer trading hours. Labour costs increased because of longer work hours and because of increased provision of variety and quality (Section III).

The introduction of six o'clock closing as a wartime measure gave industry groups the opportunity to experiment with a temporary reform. Its extension by the 1918 Licensing Act Amendment passed without debate. This would not have been the case if interest groups were dissatisfied with it¹⁴. The gains to interest groups from six o'clock bar closure are detailed in Section III.

Section III. Gains to Interest Groups

The fact that the restriction on bar trading hours did not produce the outcomes used to justify it raises the question of why it was maintained for fifty years. That restricted bar trading hours raised hotel profits suggests that it was in the interests of hotel owners. Two reasons for higher hotel profits under restricted trading hours, namely lower expenditures on quality and lower monitoring costs, are discussed in iii c) below. That six o'clock bar closing was part of a wider objective to lower the working week suggests that it was in the interests of organised labour. This is discussed in iii b). The benefits of six o'clock closing for temperance and prohibition organisations, the interest groups usually associated with six o'clock bar closing, are discussed in iii) a).

¹³ Hotel profits in the year to October 1968 for the hotel chain of Hancock and Company were down by 52 per cent on profits of the previous year, despite an increase in bar sales of 2 per cent. Bar sales in Auckland hotels owned by the largest New Zealand brewery also rose by 9 per cent in 1968. Data on hotel profits at 1917 do not exist. Source: *Proceedings* (1945) p 3005, p 3083, p 3571, p 3740, p 3754-3757, p 3869, p 3880, p 3895, p 4016, p 4024-4025; NZB Archives.

¹⁴ Shorter hotel hours were also retained after World War One in all Australian states where it had been introduced as a wartime measure.

a) Prohibition and Temperance Organisations

Alcoholic beverage regulation was the primary interest of temperance and prohibition organisations¹⁵. Membership to these voluntary organisations was largely determined by their ability to influence legislative change. Their electoral support was sought by many legislators in New Zealand from the 1880's to the 1960's, during which time close links were maintained with organised labour¹⁶.

Prohibition and temperance objectives were represented in New Zealand by the New Zealand Alliance, a lobby group that specialised in agitating for amendments to licensing laws. It promoted these objectives through the continual introduction of legislation, often with minor 'compromises', by parliamentary representatives. Bills were initially preceded by petitions that signaled electoral support. Following the establishment of triennial licensing referenda, an important focus for temperance and prohibition agitation, support for alcoholic beverage regulation was indicated by votes for referenda options¹⁷.

The Alliance compromised to introduce six o'clock bar closure. Restricted bar trading hours were to be included in the War Regulations Amendment Act 1916¹⁸. It instead included two compromise measures¹⁹, both of which facilitated the introduction of six o'clock bar closure in the following year. The first compromise was a prohibition on hotel 'treating' or 'shouting', the purchase of multiple units of alcoholic beverages for consumption by more

¹⁵ Temperance and prohibition organisations agitated for restrictive regulation of alcoholic beverage markets as a way to increase standards of moral behaviour. The former sought to moderate alcohol consumption, whereas the latter sought its abolition.

¹⁶ See Grigg (1981); NZ Licensee *passim*.

¹⁷ Source: AJHR (1946) H-38; NZ Licensee 33 9 p 53 and *passim*; NZOYB (1917) p 736-741; NZPD 180 p 222, p 293. The alcoholic beverages market was the only market subject to triennial referenda, which were taken at the same time as parliamentary elections. The licensing referendum gave electorates the choice of the *status quo* (national continuance), a prohibition on the sale of alcoholic beverages over the whole country (national prohibition), or nationalisation of alcoholic beverage retailing and manufacturing (state control). See also note 57 below.

¹⁸ Statutes to close New Zealand hotels at nine o'clock p.m. and eight o'clock p.m. were rejected in the House of Representatives by one vote and thirteen votes respectively in 1916. Eight o'clock p.m. was the recommended closing time in the first reading of the bill that introduced six o'clock public bar closing. Source: NZPD 177 p 549, *ibid* 180 p 217, p 291.

than one consumer. It increased the number of transactions, which exacerbated hotel labour shortages during wartime. Shorter trading hours offset this by reducing the demand for labour; by concentrating demand, it also encouraged the purchase by consumers of multiple units for own consumption as closing time drew near²⁰.

The second compromise was a restriction on females on licensed premises, ostensibly done to lower the supply of prostitutes on licensed premises and hence the incidence of venereal disease amongst servicemen²¹. It effectively introduced six o'clock public bar closing for half of the population, which generated agitation to extend six o'clock closing to the male population²². By implicitly accepting a link between female patronage of hotels and prostitution, the 1916 statute also strengthened a negative social attitude to female consumption at bars. It helped promote female membership in temperance and prohibition organisations that continued to maintain demand for six o'clock public bar closing²³.

The maintenance of six o'clock bar closing was an important manifestation of the political power of the New Zealand Alliance²⁴. It was, along with the licensing referendum, one of few reforms that appeared not to compromise the different objectives of prohibition and temperance. Temperance organisations viewed the reform as moderating consumption by restricting demand²⁵. Prohibitionists viewed it in part as maintaining pressure for more restrictive regulation of alcoholic beverage markets. The alliance of temperance and

¹⁹ Source: *ibid* 177 p 548-551, p 558-559.

²⁰ Multiple purchases for own consumption were usually made when consumption speed increased. Faster consumption ensured that beer did not go 'flat', that is, lose pressure. Publicans expected the prohibition on treating to have a more adverse impact than six o'clock closing. Source: NZPD 177 p 54-561, p 558-559 *ibid* 307 p 2307.

²¹ Statutes existed from 1874 that prohibited publicans from supplying prostitutes on licensed premises. Offenders faced instant hotel license forfeiture without compensation. Source: NZ Statutes (1916) p 104; NZOYB (1917) p 231; NZPD 177 p 532, p 556.

²² Petitions to parliament on six o'clock bar closing obtained a hundred thousand signatures prior to the 1916 Act, and one hundred and seventy thousand signatures (representing 28 per cent of registered voters) following the 1916 Act. Petitions for a prohibition on treating obtained thirty thousand signatures in 1916. Source: NZPD 177 p 549; *ibid* 180 p 221-229; NZOYB (1916) p 27.

²³ See Grigg (1983) p 153, p 157-158

²⁴ Source: NZ Licensee 31 6 p 14, *ibid* 33 7 p 53, *ibid* 34 2 p 11, *ibid* 34 5 p 25. The longest enduring temperance reforms in New Zealand were (in increasing order of longevity) six o'clock closing (1917-67), triennial licensing referenda (1893-1975) and restrictions on retail licenses (1881-1989).

²⁵ See Proceedings (1945) p 1389-1394, p 1948, p 5184 and *passim*. For a different perspective, see *ibid* p 6604.

prohibition broke down when the recognition that concentrating demand did not promote moderate alcohol consumption became more widespread (Section IV).

b) Trade Unions

Reductions to public bar hours were part of a general reduction in trading hours that occurred once labour markets were regulated by arbitration²⁶. Hotel labour differed from labour in other trades in one critical respect from 1898; it was unable to negotiate lower working hours in arbitration because hotel trading hours were prescribed by the Licensing Act. The negotiation of a shorter working week for a minimum wage was an important part of wage bargaining for all other trades in arbitration. Agitation to bring hotel workers under the same conditions as other trades increased in the first two decades of the twentieth century, as the relative wage of hotel labour fell to the point where it implicitly set minimum wages²⁷.

The relative wage of hotel labour was first raised by restricting the employment of low-wage female and youth labour more than that which existed in trades subject to arbitration²⁸. Female and youth labour were eliminated from hotels in 1910 after political agitation by the New Zealand Alliance²⁹. The Licensing Act Amendment Act 1910 increased the minimum age for entry to hotel bars to twenty-one and prohibited employment contracts for new barmaids. It also brought public bar closing forward by one hour to ten o'clock p.m.. Soon after, hotel labour was brought under most of the provisions of the Shops and Offices Act that set employment conditions in other retail trades.

²⁶ See Mulcare (1999).

²⁷ By 1913, the minimum wage for barmen aged twenty-two years and over was 42.5 shillings (exclusive of lodging and food) for a sixty-two hour working week, compared to a minimum wage of 50 shillings for a fifty-two hour working week for male grocery assistants of the same age in the same industrial district. Source: AJHR (1913) H-11 p 75; NZPD 153 p 842, *ibid* 156 p 1189; NZ Statutes (1910) p 307.

²⁸ Trade unions negotiated minimum wages and youth and female quotas in arbitration. The minimum wage for barmaids was 41% lower than the minimum wage for barmen. Source: AJHR (1913) H-11 p 75.

²⁹ Prohibition and temperance groups considered the home to be the basic unit of a moral society, and females to be the primary custodian of moral standards. They agitated for regulations that restricted feminine employment to the home, and agitated for age restrictions to hotels to reduce the exposure of relatively susceptible young people to 'corrupting influences' such as alcohol.

The statutory elimination of female and youth hotel labour prevented their substitution for adult male labour diverted to the war economy in 1914. This put upward pressure on real hotel wages, at a time when increases to alcohol excises as part of war financing limited the extent to which higher wages could be passed to consumers as higher alcoholic beverage prices. Further reductions to public bar hours were used to lower demand for hotel labour³⁰.

Six o'clock bar closure precipitated rising real wages for hotel labour that included a fall in their standard working week, from sixty-two hours to forty-eight hours in 1922. From 1936 to 1967, the standard working week for hotel and shop labour was the same except during lags in revisions to licensing and shop statutes³¹. Trade unions resisted any move to extend trading hours, including that of hotels, as threatening real wage gains secured in arbitration³². Industrial action followed the extension of bar trading hours in 1967³³.

c) Hotel Owners

i) Amenity quality

Hotel owners gained from restricted trading hours primarily by economising on expenditures on amenity quality. Variations in amenity quality are an important source of product differentiation in less regulated alcoholic beverage retail markets³⁴. New Zealand hotels were characterised by a low level of improvement during the period of restricted trading hours; improvements during this time were largely in compliance with the minimum amenity standards prescribed by the Licensing Act³⁵.

³⁰ See: NZPD 180 p 244-245, p 255, p 667-670 and *passim*.

³¹ Source: NZ Statutes (1921) p 379, *ibid* (1936) p 126-128, *ibid* (1945) p 309-312, *ibid* (1946) p 218.

³² Source: NZPD 307 p 2190-2199; Proceedings (1945) p 7145, 7158.

³³ The Hotel Workers Union supported later closing with no extension to the number of trading hours. In 1967 it accepted the lifting of restrictions on the employment of part-time and casual labour in exchange for higher basic wages. Source: NZ Licensee 34 5 p 26, *ibid* 34 11 p 27; *ibid* 35 12 p 17.

³⁴ See Gourvish and Wilson (1994).

³⁵ Between 1920 and 1935, three and a half times as many hotels improved their accommodation facilities as improved their bar facilities; between 1935 and 1945, it was twice as many. This is despite the fact that the bar trade generally cross-subsidised accommodation, and demand concentration from six o'clock closing created a demand for bar improvements. Unlike accommodation facilities, bar facilities were not subject to

Restricted bar trading hours lowered demand for hotel quality, for two reasons. First, it increased the costs of searching for quality. Consumers given one hour to travel to, and consume at, hotels during their working week placed a low value on search relative to consumption. Second, six o'clock public bar closing largely precluded classes with a relatively high demand for quality, namely females³⁶. Females usually consumed in hotel lounge and restaurant bars but not in public bars. These bars were smaller, more labour intensive and less well patronised than public bars. Higher charges made for these bars may not have compensated for the higher level of services. This was influenced by the fact that a higher incidence of females at hotels after trading hours were extended moderated the alcohol consumption of males³⁷.

A low demand for quality maintained minimum standards at existing levels. Higher minimum hotel standards increased risk, for two reasons. First, a risk of confiscation of industry capital by referendum existed until 1975, although trivial from 1928³⁸. Second, risk pertained to hotel capital as long as regulation concentrated licenses within central business districts. Reforms that widened the distribution of licenses lowered the value of

minimum standards other than for safety and sanitation until after 1948. Source: *AJHR* (1946) H-36 p 120-134, p 362 and *passim*; *ibid* H-5 (1975) p 24-25; *ibid* H-3 (1949-72) *passim*; Proceedings (1945) p 3865, p 3950, p 3892, p 4023-4024; Statistics of Local Government (1921-24) *passim*; Local Authority Statistics (1960-70) *passim*.

³⁶ Most females legally permitted in hotels were housewives whose working day finished much later than six o'clock p.m.. Industry surveys suggest that alcoholic beverage consumption by females increased from 43% of the female population in 1968 to 52% by 1972. Over the same period, male consumption increased from 68% to 70% of the male population. Source: NZLIC (1973) p 15.

³⁷ Source: NZ Licensee 27 9 p 17, *ibid* 35 8 p 45-47 *ibid* 35 12 p 17. Exogenous demand changes from the 1960's that lowered per capita alcohol consumption promoted the extension of markets to sectors with moderate consumption profiles. Social sanctions against females at hotel bars began to ease from the 1960's, although females continued to be discouraged from public bars despite it being an offence not to serve them in any bar (unless to do so contravened the Act).

³⁸ Support for national prohibition at the licensing referenda peaked at 55% of the electorate in 1911, when referenda options required a 60% majority to be introduced. From 1919, a 50% majority was required. Support for national prohibition fell from 49.7% of the electorate in 1919 to 47.3% in 1925 and 40.2% in 1928. The annual rate of improvement of New Zealand hotels was 50 % higher in the period 1935-45 than in the period 1920-35. Source: Bloomfield (1984) p 374-375; *AJHR* (1946) H-38 p 362.

improvements in high license density areas³⁹. Payments for quality also fell during a period of price controls on public bar beverages and accommodation from 1939⁴⁰.

The lifting of price controls in 1961 occurred contemporaneously with the introduction of a new license class, the tavern license. It differed from the hotel license in one key respect; holders of a tavern license paid an annual fee equivalent to 3 per cent of liquor turnover, in lieu of the obligation to provide accommodation and meals. This lowered the cost of siting hotels in suburbs where there was little demand for hotel accommodation. Hotel improvement in central business districts that followed the lifting of price controls facilitated the transfer of licenses, from unimproved city hotels to sites in low license density suburbs⁴¹. It was at this point that the Council for the Licensed Trade that represented the interests of publicans and manufacturers began to agitate for extended bar hours⁴² (six o'clock bar closure limited the expansion of hotels into suburbs, because it gave suburban residents who worked in central business districts insufficient consumption time).

Hotel owners were not the only group interested in maintaining a low level of hotel quality. Prior to the 1970's, a key characteristic of high quality in bars was chairs and tables for 'sit-down' drinking. The 'stand-up' drinking that prevailed in low-quality bars was less expensive, both in terms of equipment costs and use of floor space. Temperance organisations opposed sit-down drinking on the grounds that it increased the time spent at

³⁹ With strictly limited search time, widening the distribution of licenses, unless to nearby competitors, is likely to have had minimal effect.

⁴⁰ Controls on public bar beverage prices decreased demand at higher quality bars, by increasing the relative price of beverages in uncontrolled lounge bars. Price controls were introduced to make manufacturers and retailers partially absorb excise increases. They were lifted on the condition that trade representatives agreed to a two-year moratorium on public bar beverage prices until after the next parliamentary election. Source: Mulcare (1998) p 100; NZ Licensee 29 1 p 10, *ibid* 29 7 p 17; *ibid* 29 10 p 32, *ibid* 30 4 p 26; *ibid* 33 5 p 39, *ibid* 34 3 p 49, *ibid* 34 5 p 25, *ibid* 35 8 p 45-47, *ibid* 35 12 p 17.

⁴¹ Hotel improvement in the 1960's was mainly undertaken at large city hotels. Improvements to accommodation at these hotels made the minimum standard accommodation in smaller city hotels redundant, if not already so. License transfer was half the cost of a new license, although suburban hotel licenses were more expensive than licenses in central business districts because of higher costs of defraying objections. Source: *ibid* 30 4 p 26, 34 3 p 39, *ibid* 35 8 p 46.

⁴² The Council for the Licensed Trade was dominated by the interests of the two major breweries that held a duopoly in brewing in New Zealand by 1971. It opposed the creation of the tavern license. Source: AJHR (1965) H-3 p 4-16; NZ Licensee 30 4 p 26, *ibid* 31 6 p 14, *ibid* 33 5 p 37-39, *ibid* 34 5 p 25-27 and *passim*.

hotel bars. Enforcement agents opposed it because stand-up drinking made policing of drunkenness easier (drunkards may have trouble standing)⁴³.

ii) Monitoring costs

Monitoring costs fell under restricted trading hours, for three reasons. First, quality fell and became a less important determinant of demand than location. Related to this, demand concentration lowered variability across hotels; higher monitoring costs are incurred at retail outlets characterised by variations in sales⁴⁴. Third, the number of transient consumers at hotels fell, and markets monitor quality where transience is low⁴⁵.

Lower quality and monitoring costs facilitated the substitution for franchisees of salaried managers in a minority of hotels⁴⁶ (salaried employees are more costly to monitor and have less incentive to provide quality than residual claimants). But most hotels continued to be franchised during the period of restricted trading hours, for two reasons. First, the trading times of some hotels were not significantly altered by six o'clock public bar closing. Hotel guests were not restricted to six o'clock, but the regulations meant that publicans were obliged to supply hotel guests on demand. This obligation increased the costs of monitoring trading outside of prescribed hours⁴⁷. After-hours trading was extensive throughout New Zealand, particularly in rural areas where the majority of consumers finished their working day after six o'clock p.m.⁴⁸.

⁴³ Source: Proceedings (1945) p 1134, p 3081, p 4772, p 5880.

⁴⁴ Uncertainty arises over whether the more frequent periods of low sales experienced in variable outlets are the result of shirking. Source: Martin (1988) p 955-956.

⁴⁵ Lower transience can be expected to raise the quality of assets for which the minimum standards set by Licensing Act did not pertain at the low quality spectrum of the market.

⁴⁶ The majority of New Zealand hotels at the turn of the twentieth century were owned by brewers and liquor wholesalers, and leased to publicans who sold alcoholic beverages under franchise. Franchises arose after restrictions were imposed on hotel license issue (note 3); franchisees paid franchise fees determined by the value of rents derived from hotel licenses. Prescribed hours are a common condition of franchise contracts that are imposed to prevent retailers free-riding; two other common franchise conditions, namely minimum retail amenity standards and exclusive territories, were also imposed by the Licensing Act. Source: Martin (1988); Mathewson and Winter (1985); Mulcare (1998).

⁴⁷ Enforcement agencies found it difficult to sort hotel guests, who were entitled to be served at hotels after public bars were closed, from other consumers.

⁴⁸ It was common for rural hotels to retain permanent lodgers, partly because of the absence of alternative accommodation for single men in rural districts. Source: AJHR (1946) H-38 p 100-101; Proceedings (1945)

That after-hours trading was more extensive in franchised than in managed hotels is suggested by several facts. First, managers had less incentive than franchisees to work after-hours because they were not residual claimants. Being on fixed salaries, they were not rewarded for accepting more risk (after-hours traders could lose their licenses for repeat offences). Second, bar sales fell in franchised hotels and rose in managed hotels after bar hours were extended in 1967⁴⁹. Third, rural hotels were more commonly operated by franchisees than managers. Given the longer employment hours of rural workers compared to urban workers, sales in rural hotels should have increased faster than sales in urban hotels following the extension of hotel hours if after-hours trading was not extensively practiced. This is not the case⁵⁰.

Franchisors had less incentive to monitor franchised hotels against after-hours trading than managed hotels, for two reasons. First, hotel licenses could be revoked without compensation if it were proven that hotel owners were privy to offences committed by their publicans. Prosecuted hotel owners could more easily claim ignorance of the actions of residual claimants than employees, particularly when the former were in rural hotels located some distance from company offices⁵¹. Second, after-hours trading maintained franchise fees. Franchisors incurred no additional costs from after-hours trading (other than the risk of hotel license confiscation), because franchise fees were determined by hotel sales, not hotel profits. After-hours traders compensated for longer working hours, by charging a premium on after-hours sales which franchisors could not observe⁵². This premium was not merely a service charge, but a form of price discrimination. After-hours

1572, p 1596, p 2528, p 4176, p 5142, p 5386, p 5427, p 5528, p 5881; NZPD 1955 p 2291-2299; NZ Licensee 34 11 p 28.

⁴⁹ Source: NZ Archives.

⁵⁰ Sales in Hancock and Company's hotels in cities and towns were respectively 19% and 7% higher in October 1967 compared with October 1968, but sales for the same period in Hancock and Company's rural hotels were only 1% higher. Source: *ibid*.

⁵¹ Monitoring costs were the critical variable of after-hour trading. Monitoring rural hotels was relatively costly for urban-based hotel owners, which is one reason why rural hotels were franchised. Monitoring was less costly for enforcement agencies subject to more extensive branch networks than franchisors. However, enforcement agents in rural districts had a lower propensity to enforce after-hours hotel trading than their urban counterparts: see Proceedings (1945) p 1595 and *passim*.

⁵² Lower monitoring costs are usually used to explain why sales rather than profits are monitored.

trading promoted price discrimination by sorting out consumers who were prepared to pay higher prices; after-hours consumers faced the risk of punitive action by enforcement agencies and paid the higher prices of private bars⁵³.

The second reason for the persistence of franchise contracts is that they were less regulated than employment contracts. More specifically, franchisees could substitute family members for more expensive regulated labour. Labour became less expensive from 1961, when the prohibition on the employment of barmaids was lifted⁵⁴.

Section IV Referenda and the Extension of Public Bar Trading Hours

Public bar hours were extended in 1967, after a referendum on the issue of hotel hours returned a three-to-one majority in favour of later public bar trading. This was the reverse outcome to the only previous referendum on hotel hours in 1949. It returned a three-to-one majority in favour of the retention of six o'clock closing. It is suggested below that these contrary referenda outcomes were the result of the input of interest groups to referenda design. Furthermore, the long period before a referendum was first held, and the period between it and the second referendum in 1967, reflected the influence of a stable equilibrium, for much of the period, between special interest groups.

Support for the retention of six o'clock bar closure in 1949 largely came from outside the temperance/prohibition movement. This is implied by the preferences revealed at licensing referenda. Preferences for prohibition are expected to be revealed by the number of votes for national prohibition. Temperance sentiment is expected to be revealed by this number

⁵³ After-hours trading was often effected in private bars. Because these bars were designated for hotel guests, the risk of detection of after-hours trading was lower than in public bars. Private bar prices were usually a minimum of 50% higher than public bar prices. Price discrimination was facilitated by licensing; restrictions on license issue gave publicans market power, and the different bar classes specified by the license provided a means to sort consumers and prevent resale. Source: Proceedings (1945) p 2481, p 3206, p 5228, p 5238, p 5864, 5888.

and by the number of votes for the state control option. The vote for national prohibition and state control at the 1949 referendum was respectively 25 per cent and 13 per cent of the total vote; in 1966 it was respectively 17 per cent and 15 per cent of the total vote⁵⁵. The results of other referenda suggest that six o'clock bar trading hours were not primarily viewed by electorates as a moral issue⁵⁶.

Table 1 details the correlation between various referenda options. It shows that six o'clock bar closure was more highly correlated with preferences for national prohibition at 1966-67 than at 1949. It also shows a positive coefficient for the correlation between preferences for later closing and national continuance at 1949, but a negative coefficient at 1967. The vote for national continuance was viewed as a vote for the *status quo*⁵⁷. The different signs on the later closing/national continuation correlation coefficients reflect the influence of voters who desired reform of alcoholic beverage markets in 1967 including an extension to bar trading hours⁵⁸.

⁵⁴ Female hotel labour was imported in the absence of skilled New Zealand labour. Source: NZ Licensee 29 1 p 23. See also *ibid* 27 9 p 17, *ibid* 33 10 p 47.

⁵⁵ Source: Bloomfield (1984) p 374-75.

⁵⁶ Lowering the consumption of alcohol was the primary, but not the only, objective of temperance groups in New Zealand; other 'vices', such as gambling, were also targeted. Consequently, it is expected that preferences for temperance should be positively correlated with preferences for stricter controls over gambling. This is not the case, as a referendum on gambling taken in 1949 with the referendum on bar hours returned a two-to-one majority in favour of increasing the provision of off-course betting in New Zealand. Source: NZ Gazette 22 (March 31) p 861; Bloomfield (1984) p 376; Grigg (1981).

⁵⁷ The large and increasing majority for national continuance was used as evidence of satisfaction with alcoholic beverage market regulation. This is one reason for the absence of referenda on bar trading hours prior to 1949. Source: NZ Licensee 30 11 p 17 and *passim*.

⁵⁸ Preferences on hotel hours in the 1949 referendum were also unrelated to the electoral mix of rural and urban populations at 1937. Rural populations are expected to have a higher preference for later closing than urban electorates, for two reasons. First, it was more common for rural workers than urban workers to finish work later than six o'clock p.m.. Second, proportionately more males than females lived in rural districts (the ratio of females to males in cities and in rural districts in 1951 was 107:100 and 89:100 respectively). Females are expected to have a higher propensity than males to vote for six o'clock closing because they were over-represented in temperance and prohibition organisations, and because six o'clock closing increased the input of males into the raising of families. (Data on rural/urban electoral populations are available to 1937, because rural populations were given greater representation than urban populations prior to 1946). Source: McRobey (1989) p 91-92, p 95; NZ Statistics (1951) 1 p 17.

Table 1: Correlation coefficients of percentage votes for referenda options, 1949 and 1966 licensing referenda and 1949 and 1967 bar trading hours referenda

Six o'clock closing and national prohibition

Year	Correlation Coefficient
1949	0.53
1967	0.69

Extended hours and national continuance

Year	Correlation Coefficient
1949	0.45
1967	- 0.25

Source: Bloomfield (1984)

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Temperance organisations were an important voting block, and temperance groups within the Alliance that had previously opposed extended bar trading hours began to agitate for it in 1966. They did this after similar agitation by their Australian counterparts, and as the perception that restricted trading hours encouraged drunkenness grew⁵⁹. Prohibition factions within the New Zealand Alliance maintained their opposition to extended trading hours. One reason for this is that a high incidence of drunkenness under restricted hours maintained political pressure for the more restrictive regulations they promoted. The different preferences on bar trading hours of temperance and prohibition groups isolated the latter and effectively undermined the New Zealand Alliance as a political force⁶⁰.

⁵⁹ Source: NZ Licensee 32 8 p 23, *ibid* 33 12 p 49-50, *ibid* 34 5 p 26.

⁶⁰ By 1966 the Committee of the New Zealand Presbyterian Church that recommended extended bar hours was 'unanimous in believing that prohibition agitation was a mis-direction of effort'. The Presbyterian Church was the largest of the 'non-conformist' churches in New Zealand that had formerly supported six o'clock closing. Following the extension of bar trading hours, the New Zealand Alliance began to promote state control at the licensing referendum more heavily than it had done so in the past. This may be viewed as an attempted rapprochement between prohibition and temperance organisations. It may also be viewed as an

The different outcomes of the trading hour referenda not only reflect the changing preferences of temperance groups; they also reflect different referenda design. The 1949 referendum gave voters two options, closing at six o'clock p.m. or closing at ten o'clock p.m.. It did not specify whether bar hours would remain the same if ten o'clock closing was permitted, and this implied the possibility of broken trading hours⁶¹. Lack of information is considered a major reason for electoral support for the retention of six o'clock closing at 1949⁶². The 1967 referendum gave electorates the choice of either six o'clock closing, or later closing with trading hour variations to be set by a regulatory agency; these options were understood to respectively imply the existing minimum nine bar hours, or a maximum of eleven bar hours and ten o'clock p.m. closing⁶³.

Interest groups provided little input to the design of the 1949 referendum, which suggests that they were satisfied with the design proposed by the legislature and with the status quo. They were not satisfied with a preliminary draft of the 1967 referendum. It implied similar trading hours to the 1949 referendum, either the *status quo* or later opening, ten o'clock p.m. closing, and a break between six o'clock p.m. and eight o'clock p.m.. It was rejected by all major interest groups with the exception of the New Zealand Alliance and trade unions⁶⁴.

The extensive input by interest groups to the design of the 1967 referendum primarily concerned the number rather than the timing of bar hours⁶⁵. The New Zealand Alliance and the Hotel Workers Union preferred the existing number of trading hours. Temperance

attempt to maintain the referenda, by supporting the option favoured by the minority of the legislature who wanted alcoholic beverages nationalised. Source: NZ Licensee 33 8 p 29, *ibid* 35 6 p 10-15.

⁶¹ The 1945 Royal Commission on Licensing had instigated the referendum on bar trading hours. It had recommended later public bar closing but shorter trading hours broken into three shifts. The lowering of the standard working week to forty weekly hours in 1945 also made increased public bar hours in 1949 less likely. Source: *AJHR* (1946) H-38 p 69, p 308, p 394, p 411-412, p 420.

⁶² Source: NZ Licensee 16 2 p 1-2, *ibid* 33 5 p 38, *ibid* 34 3 p 10; *ibid* 34 4 p 10.

⁶³ Source: *ibid* 34 9 p 11.

⁶⁴ Temperance groups rejected it on the grounds that it would increase drunkenness by concentrating demand in two periods instead of one. Source: NZPD 351 p 2004, *ibid* 352 p 859, p 2685; NZ Licensee 33 9 p 53; *ibid* 34 3 p 10; *ibid* 34 4 p 11; *ibid* 34 5 p 25-27; *ibid* 34 6 p 11; *ibid* 34 8 p 22.

⁶⁵ Source: *ibid*.

groups and hotel owners were either neutral as to the number of trading hours, or preferred an increase in the number; their main concern was to extend the hour of closure. The final referendum design was similar to that proposed by the Council for the Licensed Trade⁶⁶.

VI Conclusion

Six o'clock bar closure was retained for fifty years because of the gains to interest groups. It was a symbol of the political influence of prohibition and temperance groups. For trade unions, it maintained real wage increases secured in arbitration. For hotel owners, it maintained the value of capital concentrated in central business districts by regulation. It did this by giving most urban consumers insufficient time to consume at other locations before bars closed; hotel owners did not have to invest in product quality or variety. Restrictions on trading hours were largely ignored where capital concentration did not exist and franchises facilitated after-hours trading.

Six o'clock bar closure differed from that of other retail outlets largely in the process by which it was obtained. It disadvantaged consumers more than shop closing, because bars provided on-premise consumption whereas most shops did not. For this reason, it is unlikely that six o'clock bar closure would have been acceptable to electorates without the use of moral suasion. Public bar trading hours were extended once the lobby group that promoted moral arguments for six o'clock bar closure was no longer able to organise effective resistance to consumer sovereignty. This event was contemporaneous with regulation promoting changes to hotel location that facilitated an extension to bar trading hours.

⁶⁶ Source: *ibid* 34 4 p 11-12.

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