

## RAISING EXCISE TAXES CAN HELP FIGHT ALCOHOL ABUSE

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Alcohol abuse is a big problem in the United States. Driving under the influence, adolescent binges, child neglect by drunken adults, and domestic violence and other crimes committed by drunkards – all blight lives and cause untimely deaths. Americans could support one step to lessen the incidence of all these alcohol-related ills. Using excise taxes to raise the price of alcohol reduces rates of abuse and leads to improvements in public health and safety.

Curiously, Congress and state legislatures have allowed alcohol excise tax rates to decline greatly in real value over the last two decades. In 1991, Congress doubled the excise tax on beer, to what amounts to a nickel per twelve-ounce container. But nothing has been done since, so general inflation has reduced that nickel tax by 40% of its value. The result of legislative neglect plus inflation is cheaper alcohol – and hence more alcohol abuse.

### What the Evidence Shows

Economists who study health behavior overwhelmingly agree that levels of alcohol abuse are affected by how much consumers pay. Taxes increase prices. In dozens of cases where states have increased excise tax rates, careful studies document modest reductions in abuse. Alaska enacted a large alcohol tax increase in 2002 that led to substantial gains in health and safety; and the large federal increase in 1991 saved 7,000 lives during just the first year.

After the politically unsuccessful national experiment with Prohibition ended in 1933, the states introduced controls and taxation to promote moderation. In *Toward Liquor Control* published as alcohol again became legal, Raymond Fosdick and Albert Scott called for the U.S. states to serve as a “laboratory in which different ideas and methods can be tested.” Decades later, my research and other studies are using modern statistical methods to draw policy conclusions from variations in state experience. Economists now estimate that an increase in a state’s alcohol excise tax by ten cents per ounce can reduce sales of ethanol by twelve percent and bring down deaths from injuries and liver-cirrosis disease. Deaths in motor accidents would also fall by around seven percent. Many more Americans would enjoy better health and live longer.

Of course prices are by no means the only influence on drinking patterns. People’s values and the age distribution of the population matter a lot. But taxes can be fine-tuned by governments and can lead to immediate results.

### Do Taxes on Alcohol Hit the Wrong People?

Some argue that taxes on alcohol unfairly burden moderate drinkers. Why hurt everyone just to cut down drinking by a small number of abusers? Intuitively it may seem more efficient to use narrowly tailored interventions, such as strict penalties for drunk driving and child abuse, tough enforcement of minimum-age laws, counseling for pregnant women, and employee-assistance to

cut out drinking on the job. But of course, all such measures are costly to implement and also affect many moderate drinkers.

A moment's consideration leads to a more fundamental insight. Alcohol taxes can actually benefit moderate drinkers financially, assuming that the extra tax revenue allows other tax rates to be reduced.

Suppose, for example, that the federal government raises all alcohol excises by the equivalent of about 10 cents per drink (where a "drink" is defined as a shot of liquor, a 12-ounce bottle of beer, or a 5-ounce glass of wine, all of which have approximately the same alcohol content). Total sales in the United States are about 600 drinks per adult per year, so the average tax payment would be around \$60 a year. But few Americans would pay that much. More than a third of adults do not drink at all, so they would pay nothing. Among the 65% who drink, most drink far less than 600 drinks per year. The famous 20-80 rule of marketing science fits the data quite well, so that it is a reasonable guess that the top 20 percent of drinkers (13% of the entire adult population) consume 80 percent of all drinks in a year – and hence would pay 80 percent of the tax. Moderate drinkers would pay very little extra.

Notice that this calculation only considers the direct impact of the tax increase. Since the tax would have the added benefit of reducing alcohol abuse, the public at large would also benefit from increased safety, lower insurance rates, and general improvements in public health. Most Americans would be net winners financially.

### **What Can and Should be Done**

Given the clear benefits of somewhat higher excise taxes on alcohol, we can only speculate about why legislators have refused to adjust taxes against inflation in recent decades. This political failure stands in sharp contrast to what has happened with tobacco taxes after a 1998 legal settlement forced companies to stop lobbying. From 1998 to 2008, the federal excise tax per pack of cigarettes increased from 24 to 39 cents, and forty-one states increased tax rates by even more. Higher cigarette taxes have helped prompt an extraordinary decline in smoking and related health problems. The public-health and economic arguments for increasing alcohol taxes are just as strong – in fact, stronger.

Alcohol manufacturers and distributors have strenuously resisted adjusting taxes in the face of inflation, claiming that higher taxes would cost jobs in the alcohol and hospitality industries. Maybe so, but Americans would be healthier, and taxpayers and consumers would have more purchasing power to spend in other areas, where jobs would increase.

Alcohol is America's leading drug problem, and prices boosted by higher excise tax rates are a key tool we can use to encourage more self-control by people who drink. Using this tool will enhance our overall standard of living. Even on a strictly financial accounting, most Americans would come out ahead.

Higher excise taxes on alcohol amount to as close to a free lunch as our towns, states, and country are likely to see in grappling with serious social problems that hurt millions. We all have an interest in persuading our legislators to enact common-sense increases in alcohol taxes.

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Read more in Phillip J. Cook, *Paying the Tab: The Economics of Alcohol Policy* (Princeton University Press, 2007).