

Davis Lecture

Center for Health Admin. Studies

Paying the Tab:

*The Case for Raising Alcohol Excise
Taxes*

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Portfolio of Alcohol Policies

Complex problem, multifaceted solution

- Treatment, education
- Policies for risky circumstances
(DUI, pregnancy, work)
- Harm-reduction policies
- Supply side policies (“alcohol control”):
tax, minimum age, marketing, licensing



The main argument



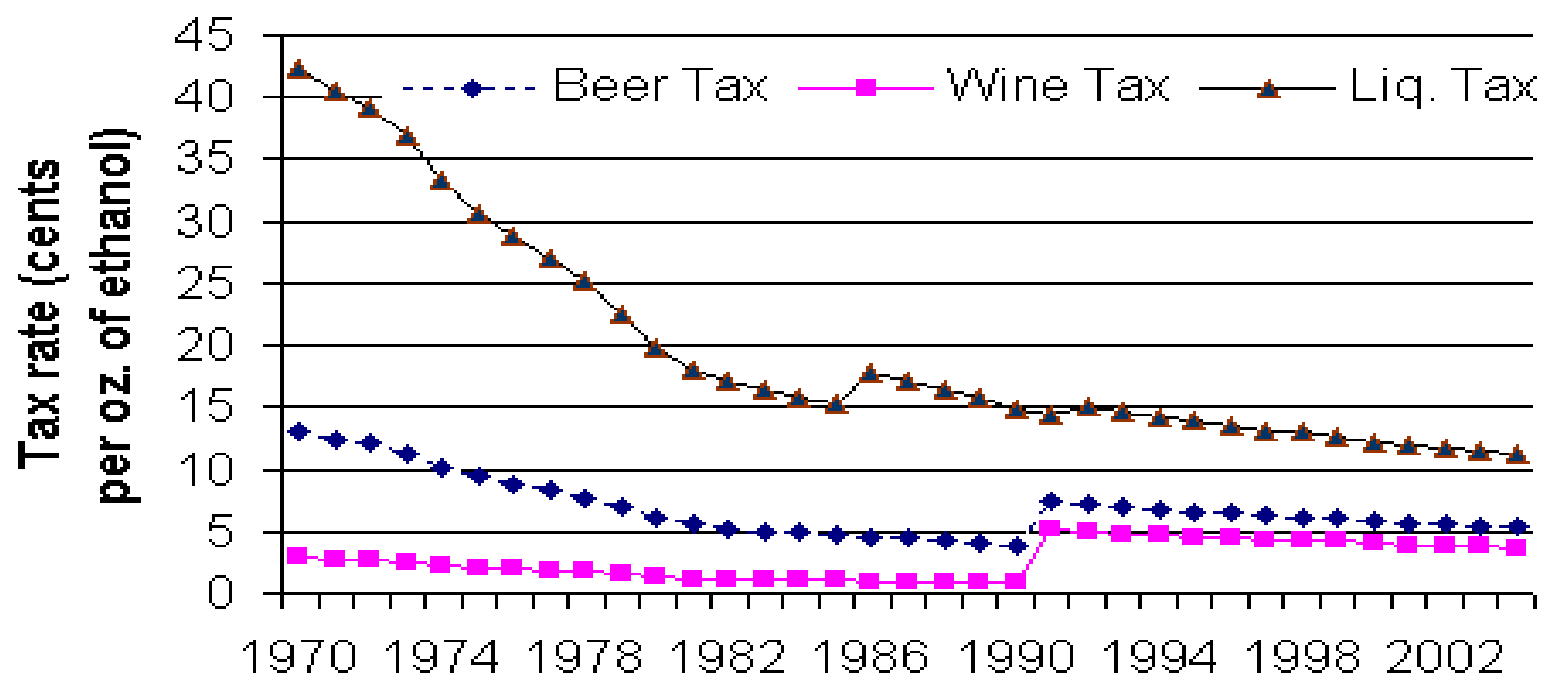
One important instrument has been neglected

- *Alcohol (especially beer) is too cheap*
- *Best solution: raise excise taxes*



Recent trends

Comparing Real Federal Tax Rates for Beer, Wine and Liquor 1970-2004



Tobacco as an inspiration



Cig taxes are now fair game for states and cities

Justified as public-health measure

No carryover to alcohol taxes. Why?

- Size of problem?
- Strength of evidence on efficacy?
- “Lessons” of Prohibition?

The wrong lesson

The “Great Experiment”



This ‘dreadful example’ is now so firmly established that it has become a maxim of popular culture, a paradigm of bad social policy, and a ritual invocation of opponents of a variety of sumptuary laws

Aaron and Musto 1981

Prohibition & Drinking

	1911-14 Local bans	1918-19 Wartime limits	1921-22 Volstead	1927-30 Volstead
Ethanol gals.	1.69	0.97	0.73	1.14
Cirrhosis mortality rate	13.9	9.3	8.0	8.2

Prohibition's differential impact by class and location

Alcohol-related mortality drops sharply for
working class

Martha Bensley Bruere's survey of social
workers

(National Federation of Settlements)

Good evidence on alcohol control and outcomes

“Indeed, the forty-eight states will constitute a social science laboratory in which different ideas and methods can be tested, and the exchange of experience will be infinitely valuable for the future.” {Fosdick & Scott 1933: 150}

Δ Tax → alcohol sales & mortality (state panel data 1970-2001)

	Sales/cap. (ln)	Mortality (ln)
Alcohol tax index	-.0211*** (.0061)	-.0068* (.0039)
Income p.c. (ln)	.188 (.208)	.065 (.121)
Employment ratio (ln)	.643** (.244)	.204* (.108)
State/year FEs	Yes	yes

How high?

Public health standard: higher is better

Historical standard 50 years ago, federal taxes were higher

Liquor: 5.7 times as high (adjusted)

Beer: 3.6 times as high (adjusted)

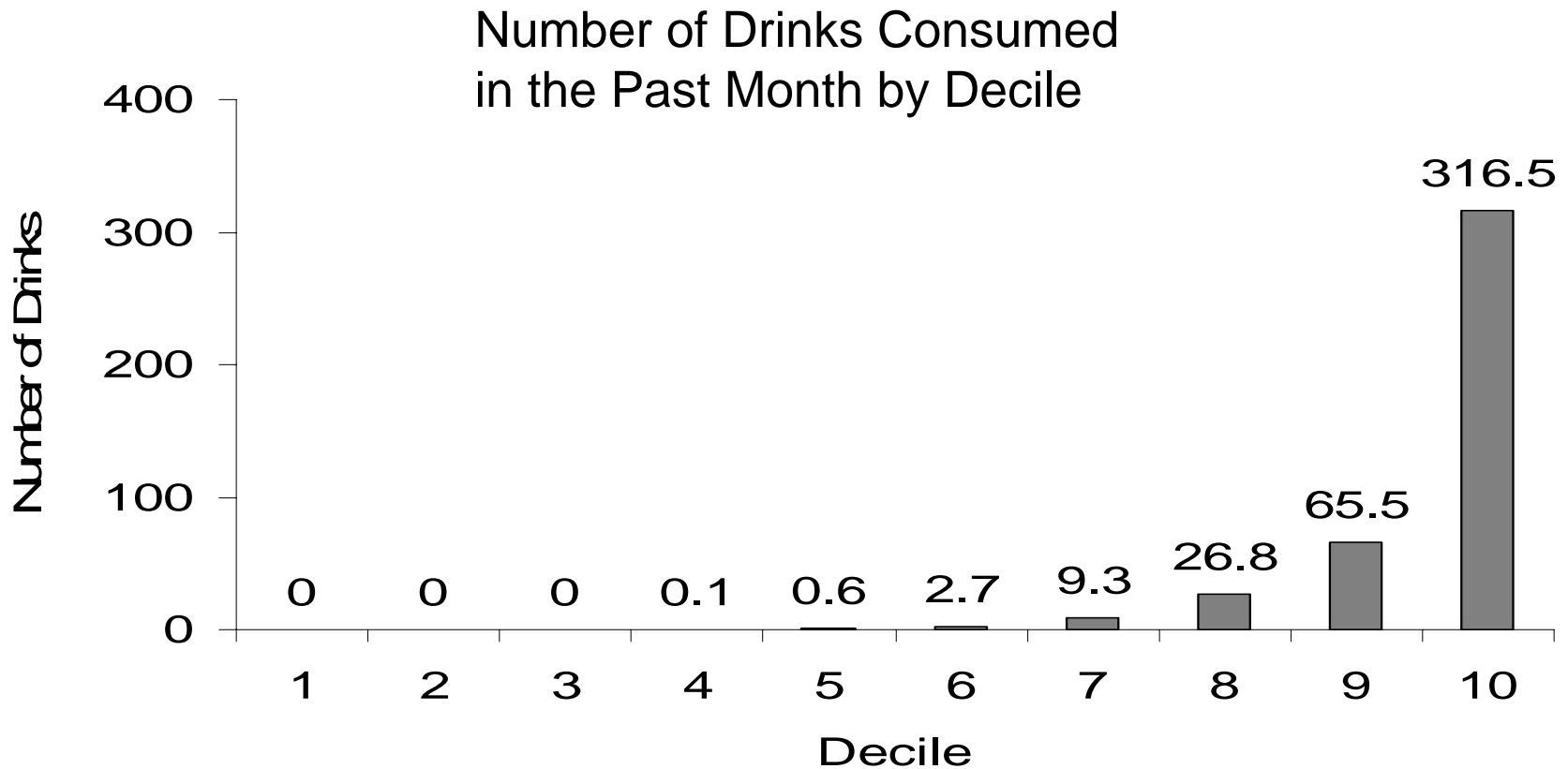
Fairness standard

Excise tax is “user fee” or “insurance premium” for public costs

Efficiency Drinking decisions should reflect full marginal costs

Who pays the excise tax?

Distribution of drinking



Source: 2001-2 NESARC

Should liquor be taxed higher than beer?

Current federal tax:

Liquor: 21 cents/ounce

Beer: 10 cents/ounce

History standard: makes sense

Fairness: Probably not – beer is the drink of younger men

Unintended consequences of raising taxes?

Substitution to other substances?

(Marijuana and tobacco are more likely to be complements)

Re-Creation of a black market?

(Not a serious problem, even in 1950s)

Decline in healthy drinking?

(Middle aged folks break even)

Economic burden?

(No job loss on balance. Regressive?)

F. Conclusion

- Alcohol is our leading “drug” problem
- The full policy portfolio should be utilized
- Evidence has accumulated over the last 25 years on efficacy of alcohol taxes
- Higher prices will encourage “voluntary self-control” and raise our overall standard of living