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


Tax rate (cents per oz. of ethanol)
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

<table>
<thead>
<tr>
<th></th>
<th>1911-14 Local bans</th>
<th>1918-19 Wartime limits</th>
<th>1921-22 Volstead</th>
<th>1927-30 Volstead</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethanol gals.</td>
<td>1.69</td>
<td>0.97</td>
<td>0.73</td>
<td>1.14</td>
</tr>
<tr>
<td>Cirrhosis mortality rate</td>
<td>13.9</td>
<td>9.3</td>
<td>8.0</td>
<td>8.2</td>
</tr>
</tbody>
</table>
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)

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

Number of Drinks Consumed in the Past Month by Decile

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