

**TESTIMONY OF CHRIS WAGNER**  
**Project Extra Mile**  
**LB 723 – General Affairs Committee**  
**March 25, 2019**

Good afternoon, Chairman Briese and members of the committee. My name is Chris Wagner, and I am the executive director of Project Extra Mile, a network of community partnerships across the state working to prevent excessive alcohol consumption, including underage drinking and its tragic consequences. We are here today in opposition to LB 723.

A state senator recently addressed a graduating class of public health scholars saying “Public health services are critical to moving this country forward. Science is under attack and you are tasked to defend the facts. Stand your ground and remind the country that we have problems that need to be addressed.” We’re here to remind you of the science behind increasing alcohol taxes because there is abundant research pointing to their effectiveness in reducing alcohol-related harms.

As you’re probably aware, there are three bills being considered by the Revenue Committee that seek to raise alcohol taxes in our state. These bills have been framed as a means to an end with that end being property tax relief. In a way, LB 723 is a knee jerk reaction to that framing. Contrary to how the debate around alcohol taxes in Nebraska is being framed, there are compelling reasons for increasing alcohol taxes in our state that have nothing to do with property tax relief. As you consider this bill, please keep in mind that over 100 studies show that higher alcohol prices through increased taxes save lives and reduce alcohol-related harms to both innocent bystanders and drinkers in urban and rural communities alike.

Consider the following facts:

- Higher alcohol taxes are recommended as a highly effective way to reducing excessive alcohol consumption and related harms by the American Medical Association; American Public Health Association; American Society of Clinical Oncology; Community Preventive Services Task Force; National Academies of Sciences, Engineering, and Medicine; Non-Communicable Diseases Alliance; and the World Health Organization.
- Lower excise taxes contribute to cheaper alcohol, leading to increased excessive drinking and the community harms that come with it.
- The 2017 federal alcohol excise tax cuts are estimated to increase the annual number of alcohol-related deaths (88,000) by approximately 1,550.
- These federal tax cuts mean that the alcohol industry is facing its lowest excise tax bill since state rates were raised back in 2003.
- Nebraska has experienced a 30% drop in inflation-adjusted value across all beverages since 2003.

- The fiscal note for this bill indicates that the state would lose \$3.8 million in excise taxes annually if LB 723 passes, but the fiscal note says nothing about the other socioeconomic costs.
- Nebraska had \$1.16 billion in economic costs in 2010 alone (work productivity lost and increased health care and corrections costs) due to excessive drinking.
  - \$491 million of those were paid by taxpayers, or roughly \$637 per tax return filed in our state that year
  - Our state received \$27.6 million in excise taxes in 2010 or 5.6% of its costs
- Our state had 703 alcohol-attributable deaths in 2015 alone and has averaged 77 alcohol-impaired traffic fatalities over the last five years.
- Alcohol is a Class 1 carcinogen and known to cause at least seven types of cancer in humans.

As you can see, there are plenty of reasons for increasing alcohol taxes in Nebraska. By all accounts, business appears to be good in Nebraska's alcohol industry since excise taxes were last raised in 2003. Let's not add fuel to the fire by cutting alcohol taxes. If we want to get out of this hole we've dug ourselves, we first have to put down the shovel.

We'd urge this committee to look seriously at evidence-based policies in the areas of price, availability and advertising to begin to tackle some of these problems. In the meantime, please indefinitely postpone LB 723. Thank you for your consideration.

## Key Research Supporting Increased Alcohol Taxes in Nebraska

### Economic

- In 2010, Nebraska experienced \$1.16 billion in economic costs (lost work productivity, corrections, and healthcare) from excessive alcohol consumption. Of the \$1.16 billion, \$491 million were borne by taxpayers while only \$27.6 million was collected in taxes that year, or a mere 5.6%. (Sacks et al., 2015; NLCC, 2010)
- These costs break down to \$1.61 per drink in 2010 of which \$0.68 per drink were paid for by taxpayers (Sacks et al., 2015). LB 314 and LB 497 are proposing an increase to \$0.10 per drink, which is only a fraction of our state's costs. Based on Nebraska Liquor Control Commission data, Nebraskans are currently paying between 3-4 cents per drink in state excise taxes.
- Underage drinking alone cost the citizens of Nebraska \$324 million in 2013. These costs included medical care, work loss, and pain and suffering. (PIRE, 2015)
- 20% of drinkers consume over 85% of all alcoholic beverages. (Harwood et al, 2002) This means the remaining 80% of drinkers consume, on average, relatively small quantities of alcohol and pay a minimal amount of taxes while excessive drinkers would pay 82.7% of the tax. (Daley et al., 2012)
- An increase to \$0.10 per drink in our state would cost an excessive drinker \$23.89 more per year, a non-excessive drinker \$4.29 more per year, and a non-drinker \$0 more per year. (Univ. of Florida et al., 2014)
- From 1991 to 2015, the average inflation-adjusted (in 2015 dollars) state alcohol excise tax rate declined 30% for beer, 27% for wine, and 32% for distilled spirits (Naimi et al., 2018). Alcohol taxes in Nebraska have experienced a 30% drop in inflation-adjusted value since 2003 (Sahr, n.d.).
- Alcoholic beverages are a luxury item and wealthier people are more likely to drink excessively. (Naimi et al., 2016)
- The Bureau of Labor Statistics data indicated that between 1990-1992, before and after the last federal beer tax increase, the number of jobs in the malt-beverage manufacturing and wholesaling industry actually rose by 1,400 positions. (CSPI & CADCA, n.d.)
- A simulation model was used to assess a hypothetical \$0.05 per drink excise tax increase to determine the impacts on employment in Arkansas, Florida, Massachusetts, New Mexico, and Wisconsin. The model results were as follows: the \$0.05 cent per drink increase resulted in increased net employment in Arkansas (802 jobs); Florida (4583 jobs); Massachusetts (978 jobs); New Mexico (653 jobs); and Wisconsin (1167 jobs). (Wada et al., 2017)

## Social

- Alcohol tax increases have been recommended as a highly effective way to reducing excessive alcohol consumption and related harms by: American Medical Association; American Public Health Association; American Society of Clinical Oncology; Community Preventive Services Task Force; National Academies of Sciences, Engineering, and Medicine; Non Communicable Diseases Alliance; and the World Health Organization.
- More than 88,000 deaths are caused by excessive alcohol use each year, making it the third-leading preventable cause of death in the United States. (CDC, 2014)
- Excessive drinking leads to short- and long-term health risks, including motor vehicle crashes, falls, homicides, suicides, sexual assaults, alcohol poisoning, risky sexual behaviors and unintended pregnancies, miscarriages, high blood pressure, heart disease, stroke, dementia, mental health problems, lost work productivity and dependence (CDC, 2018)
- Alcohol consumption is a causal risk factor for several types of cancer, including cancers of the head and neck, female breast, stomach, liver, and colorectum. (WCRF/AICR, 2009)
- Underage drinking is a major driver of the three leading causes of death among young people: violence, suicide, and unintentional injury. (CDC, 2018)
- Nebraska ranks as the 5<sup>th</sup> worst state in terms of binge drinking with 20.6% of adults binge drinking and two Nebraska communities, Lincoln and Omaha, rank in the top 25 worst binge drinking cities. (CDC, 2017; CDC, 2018)
- Nebraska ranks 2nd worst in terms of self-reported drinking and driving with 955 episodes per 1,000 population. (Jewett et al., 2015) During 2012-17, an average of 77 alcohol-related traffic fatalities have occurred each year due to a drunk driver. (NDOT Highway Safety Office, 2018)
- Nine in 10 excessive drinkers are not alcohol dependent (alcoholics) (CDC, 2014)
- Alcohol killed an estimated 703 Nebraskans in 2015, and 2,403 were hospitalized in 2014 with alcohol being the primary or secondary cause for the hospitalization. (NE DHHS, 2017)
- A study concluded that doubling the alcohol tax would reduce alcohol-related mortality by an average of 35%, traffic crash deaths by 11%, sexually transmitted disease by 6%, violence by 2%, and crime by 1.4%. (Wagenaar et al., 2010)
- Support for increasing alcohol taxes in Nebraska is growing. 52% of adults surveyed were very/somewhat supportive of additional taxes on alcohol purchases – an increase of 9% from 2014. (NE Annual Social Indicators Survey, 2017)
- After an alcohol tax increase in Illinois in 2009, fatal alcohol-related motor vehicle crashes decreased by 9.9 per month – a 26% reduction. (Wagenaar, et al., 2015) Rates of STIs also decreased as follows: gonorrhea rates decreased by 21% and chlamydia rates decreased by 11%. (Staras et al., 2014)
- A 2011 3% alcohol sales tax increase in Maryland resulted in a 17% decrease in adult binge drinking between 2011 and 2016 and a 26% reduction in high school youth alcohol consumption along with a 28% reduction in youth binge drinking between 2011 and 2015. (Porter et al., 2018)
- The 2011 MD 3% alcohol sales tax increase led to a significant gradual annual reduction of 6% in the population-based rate of all alcohol-positive drivers and a 12% reduction for drivers aged 15-20 years and 21-34 years (Lavoie et al., 2017)

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# The Effectiveness of Tax Policy Interventions for Reducing Excessive Alcohol Consumption and Related Harms

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**Abstract:** A systematic review of the literature to assess the effectiveness of alcohol tax policy interventions for reducing excessive alcohol consumption and related harms was conducted for the *Guide to Community Preventive Services (Community Guide)*. Seventy-two papers or technical reports, which were published prior to July 2005, met specified quality criteria, and included evaluation outcomes relevant to public health (e.g., binge drinking, alcohol-related crash fatalities), were included in the final review. Nearly all studies, including those with different study designs, found that there was an inverse relationship between the tax or price of alcohol and indices of excessive drinking or alcohol-related health outcomes. Among studies restricted to underage populations, most found that increased taxes were also significantly associated with reduced consumption and alcohol-related harms. According to *Community Guide* rules of evidence, these results constitute strong evidence that raising alcohol excise taxes is an effective strategy for reducing excessive alcohol consumption and related harms. The impact of a potential tax increase is expected to be proportional to its magnitude and to be modified by such factors as disposable income and the demand elasticity for alcohol among various population groups.

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## Introduction

Excessive alcohol consumption is the third-leading actual cause of death in the U.S.,<sup>1</sup> and each year it accounts for approximately 79,000 deaths and 2.3 million years of potential life lost (about 29 years of life lost per death; [apps.nccd.cdc.gov/ardi/Homepage.aspx](http://apps.nccd.cdc.gov/ardi/Homepage.aspx)). Excessive alcohol consumption contributes to a variety of health and social problems, including unintentional injuries (e.g., injuries due to motor vehicle crashes); suicide; homicide; liver cirrhosis; gastrointestinal cancers; vandalism; and lost productivity.<sup>2</sup> Alcohol consumption by

underage drinkers also contributes to the three leading causes of death among adolescents (unintentional injuries, suicide, and homicide),<sup>3</sup> and any underage drinking is considered excessive.

One of the fundamental laws of economics is that quantity demanded of a product is inversely related to its price (Law of Demand).<sup>4</sup> Based on economic theory, therefore, increasing the price of alcohol would be expected to lower alcohol consumption. Alcohol taxes are promulgated primarily by federal and state governments, but can be instituted at the local or county level. Currently in the U.S., alcohol taxes are beverage-specific (i.e., they differ for beer, wine, and distilled spirits) and are usually “nominal” taxes, meaning they are based on a set rate per unit volume and are not adjusted for inflation (i.e., they generally remain stable as the cost of living increases). At the state and federal levels, inflation-adjusted alcohol taxes have declined considerably since the 1950s.<sup>5</sup> Concordant with this decrease in the real value of these taxes from substantially higher levels, the inflation-adjusted price of alcohol decreased dramatically,<sup>6</sup> reflecting the

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fact that changes in taxes are efficiently passed on through changes in prices.<sup>7</sup> The goal of this systematic review is to assess the relationship between alcohol taxes or prices and public health outcomes related to excessive alcohol consumption to better inform decision makers about the potential utility of using tax policy as a means of improving those outcomes.

### Healthy People 2010 Goals and Objectives

The intervention reviewed here is relevant to several objectives specified in *Healthy People 2010*, the disease prevention and health promotion agenda for the U.S. (Table 1).<sup>8</sup> The objectives most directly relevant to this review are those that aim to reduce excessive alcohol consumption (26-11); reduce average annual alcohol consumption (26-12); and reduce key adverse consequences of excessive alcohol consumption (26-1, 26-2, and 26-5 through 26-8). In addition to these specific objectives, *Healthy People 2010* notes that excessive alcohol consumption is also related to several other public health priorities such as cancer, educational achievement, injuries, risky sexual activity, and mental health; thus, a reduction in excessive alcohol consumption should help to meet some of the national goals in these areas as well.

**Table 1.** Selected *Healthy People 2010*<sup>8</sup> objectives related to excessive alcohol consumption

Adverse consequences of substance use and abuse
26-1 Reduce alcohol-related motor-vehicle fatalities <sup>a</sup>
26-2 Reduce cirrhosis deaths
26-5 Reduce alcohol-related hospital emergency department visits
26-6 Reduce the proportion of adolescents who ride with drinking drivers
26-7 Reduce intentional injuries resulting from alcohol-related violence <sup>a</sup>
26-8 Reduce cost of lost productivity due to alcohol use <sup>a</sup>
Substance use and abuse
26-10a Increase proportion of adolescents not using alcohol in past 30 days <sup>a</sup>
26-11 Reduce proportion of people <sup>b</sup> engaging in binge drinking
26-12 Reduce average annual alcohol consumption
26-13 Reduce proportion of adults who exceed guidelines for low-risk drinking

<sup>a</sup>Objective also relates to illicit drug use

<sup>b</sup>Aged ≥12 years

### Recommendations from Other Advisory Groups

Several authors<sup>9–12</sup> have suggested that increasing alcohol prices by raising alcohol excise taxes is among the most effective means of reducing excessive drinking and alcohol-related harms. Increasing alcohol excise taxes has been specifically recommended as a public health intervention by the IOM, Partnership for Prevention, the WHO, and the expert panel convened for the Surgeon General's Workshop on Drunk Driving.<sup>13–16</sup> These recommendations are based on studies<sup>14,17,18</sup> showing that increased alcohol taxes are associated with decreased overall consumption, decreased youth consumption, decreased youth binge drinking, reduced alcohol-related motor-vehicle crashes, reduced mortality from liver cirrhosis, and reduced violence.

### The Guide to Community Preventive Services

The current systematic review of the effects of alcohol taxes and prices on excessive alcohol consumption and related harms applies the stringent inclusion and assessment criteria of the *Guide to Community Preventive Services* (*Community Guide*).<sup>19</sup> It was conducted under the oversight of the independent, nonfederal Task Force on Community Preventive Services (Task Force), with the support of USDHHS in collaboration with public and private partners. The CDC provides staff support to the Task Force for development of the *Community Guide*.

To support efforts to address important public health priorities, such as reducing excessive alcohol consumption and its related harms, the Task Force makes recommendations for practice and policies based on the results of *Community Guide* reviews such as this one. These recommendations are based primarily on the effectiveness of an intervention in improving important outcomes as determined by the systematic literature review process. In making its recommendations, the Task Force balances information about effectiveness with information about other potential benefits and harms of the intervention itself. The Task Force also considers the applicability of the intervention to various settings and populations in determining the scope of the recommendation. Finally, the Task Force reviews economic analyses of effective interventions, where available. Economic information is provided to assist with decision making, but it generally does not affect Task Force recommendations. See the Task Force–authored paper in this issue for recommendations regarding the effects of alcohol taxes and prices on excessive alcohol consumption and related harms.<sup>20</sup>



## Evidence Acquisition

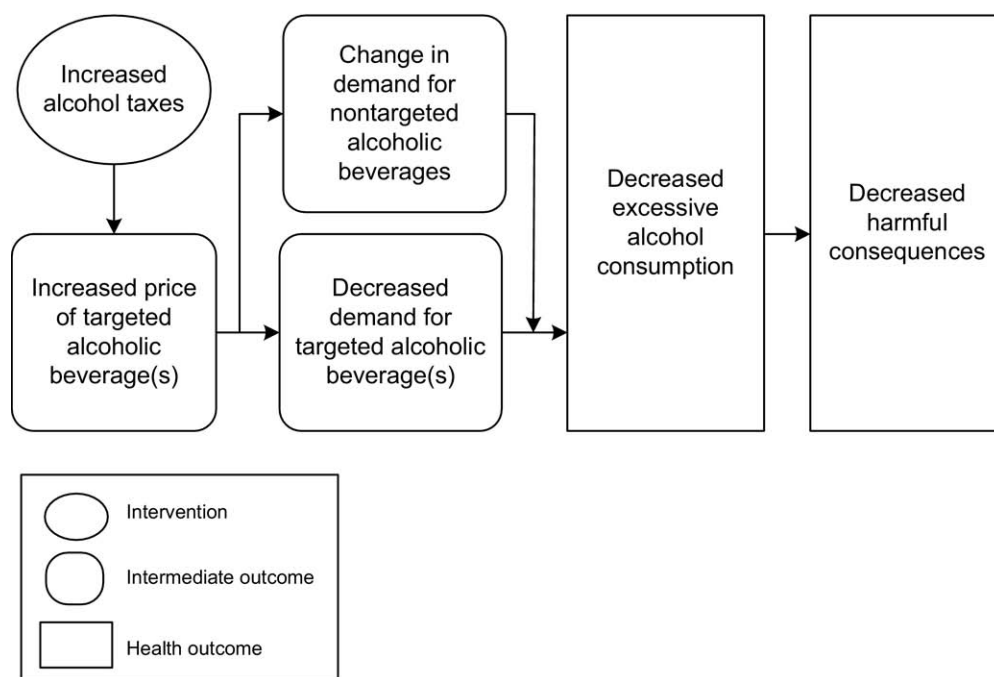
*Community Guide* methods for conducting systematic reviews and linking evidence to effectiveness are described elsewhere<sup>19</sup> and on the *Community Guide* website ([www.thecommunityguide.org/methods](http://www.thecommunityguide.org/methods)). In brief, for each *Community Guide* review topic, a systematic review development team representing diverse disciplines, backgrounds, and work settings conducts a review by (1) developing a conceptual approach to identify, organize, group, and select interventions for review; (2) developing a conceptual model depicting interrelationships among interventions, populations, and outcomes; (3) systematically searching for and retrieving evidence; (4) assessing and summarizing the quality and strength of the body of evidence of effectiveness; (5) translating evidence of effectiveness into recommendations; (6) summarizing data about applicability (i.e., the extent to which available effectiveness data might apply to diverse population segments and settings), economic impact, and barriers to implementation; and (7) identifying and summarizing research gaps.

## Conceptual Model

The conceptual causal pathway by which increased alcohol taxes are expected to reduce excessive alcohol consumption and its related harms is depicted in Figure 1. The first step in this pathway posits that tax increases will be passed on to the

consumer in the form of higher alcohol prices, as has been documented previously.<sup>7</sup> According to the Law of Demand,<sup>4</sup> an increased price would be expected to lead to a decrease in the quantity of alcoholic beverages demanded, resulting in decreases in excessive alcohol consumption and its harmful consequences. Details of the specific independent variables and outcome measures that reflect the concepts in this conceptual causal pathway are provided below.

One complicating factor in this conceptual model arises from the fact that different types of alcoholic beverages (e.g., beer, wine, and spirits) are taxed at different rates in the U.S. and several other countries. When tax increases affect one type of beverage only (designated as the “targeted” alcoholic beverage in Figure 1), one must consider the possibility of substitution effects, whereby alcoholic beverages that have not been affected by the tax increase may be consumed in greater quantities. To the extent that such substitution occurs, the overall rate of excessive drinking would not decrease as much as would otherwise be expected based on the decrease in quantity demanded for the beverage targeted by the tax increase. However, binge drinkers are known to prefer certain types of alcoholic beverages (e.g., most adult binge drinkers in the U.S. consume beer)<sup>21</sup> for reasons that may not be entirely related to price (e.g., availability, convenience, taste); thus, it is not clear whether and how large an effect beverage substitution would likely have on overall alcohol consumption, even when tax increases affect one beverage type only.



**Figure 1.** Conceptual model for the causal relationship between increased alcohol taxes and decreased excessive alcohol consumption and related harms (oval indicates intervention; rectangles with rounded corners indicate mediators or intermediate outcomes; and rectangles indicate outcomes directly related to improved health)

## Review Inclusion Criteria

To be considered for inclusion in this review, candidate studies had to (1) meet minimum *Community Guide* standards for study design and quality<sup>19</sup>; (2) be published in an English-language journal, book chapter, or technical report; (3) be conducted in a high-income economy; and (4) evaluate independent variables and outcome measures of interest.

**Independent variables of interest.** In addition to the other criteria noted above, to be included in this review, a study had to evaluate either the effects of a

change in alcohol tax policy or the relationship between alcohol taxes or prices and outcomes of interest. Studies of the effects of alcoholic beverage prices were considered relevant to an evaluation of alcohol taxes because there is evidence that changes in alcohol taxes are passed on to the consumer in the form of higher or lower prices, with little or no lag time.<sup>7</sup> In fact, there is some evidence that tax increases may be magnified as they are passed on to the consumer. For example, when the federal excise tax on beer increased by \$9 per barrel in 1991, it was estimated to have increased retail prices by \$15 to \$17.<sup>7</sup>

**Outcome measures of interest.** The outcome measures of interest in this review are direct measures or proxies relating to the two final boxes in Figure 1—that is, excessive alcohol consumption and the harmful consequences of such consumption. When excessive alcohol consumption is assessed directly, it is typically done through surveys assessing either the prevalence or frequency of binge drinking (four or more drinks per occasion for women, or five or more drinks per occasion for men); heavy drinking (more than seven drinks per week for women, or more than 14 drinks per week for men); or underage drinking (defined by state or national laws). Measures of societal levels of alcohol sales or consumption were also considered an acceptable proxy for excessive consumption for two primary reasons. First, there is an extremely strong relationship between per capita alcohol consumption and various measures of excessive drinking.<sup>22,23</sup> Furthermore, because people consuming greater quantities of alcohol may be more sensitive to price increases, reductions in societal levels of alcohol consumption subsequent to price increases may result in even larger declines in excessive consumption.<sup>22</sup>

In addition to studies directly or indirectly assessing excessive alcohol consumption, studies assessing health-related outcomes associated with excessive alcohol consumption (e.g., alcohol-related motor-vehicle crashes) were also included in this review. In some cases, a single paper reported multiple measures of a single general outcome (e.g., both single-vehicle nighttime crashes and total crashes reported as measures of alcohol-related crashes). In these instances, the measure that was most strongly associated with excessive alcohol consumption based on estimated alcohol-attributable fractions was chosen as the primary result reported for that outcome.

## Search for Evidence

Conducting a thorough search for studies of the effects of alcohol taxes or alcohol prices is challenging because the effects of alcohol taxes or prices are often studied in conjunction with many other variables. As a result, a search that targets “tax” or “price” may fail to identify many relevant studies. To address this issue, a search was conducted for relevant studies as part of a broad database search for terms related to several alcohol policy interventions of interest to

the current review group, covering the period from database inception through July 2005. Using MeSH terms and text words, the following databases were searched: MEDLINE, EMBASE, PsycINFO, the ETOH database of the National Institute on Alcohol Abuse and Alcoholism, Web of Science, Sociological Abstracts, and EconLit. Search strategies are available at [www.thecommunityguide.org/alcohol/supportingmaterials/SSincreasingtaxes.html](http://www.thecommunityguide.org/alcohol/supportingmaterials/SSincreasingtaxes.html). The reference lists of prior literature reviews, as well as reference lists from studies included in this review, were used to identify additional relevant articles. The search produced 5320 potentially relevant papers, of which 78 met the inclusion criteria.

## Data Extraction and Quality Assessment

For each candidate study, study characteristics and results were recorded, and the quality of study execution was assessed. The degree to which a study’s basic design protected against threats to internal validity was rated using a three-level classification system ranging from least suitable (for designs with a cross-sectional analysis or a single observation before and after an intervention) to greatest suitability (for designs with concurrent comparison conditions).<sup>19</sup> Ratings of the quality of each study’s execution provided further information on their utility for the purposes of the review. Quality of study execution was assessed using a standard 9-point scale, reflecting the total number of identified limitations to internal or external validity (viz. study population and intervention descriptions, sampling, exposure and outcome measurement, data analysis, interpretation of results, and other biases). Studies with zero or one limitation were categorized as having good execution, those with two to four limitations had fair execution, and those with five or more limitations were categorized as having limited execution.<sup>19</sup> Studies with limited execution were excluded from further analysis.

## Effect Measurement and Synthesis of Results

The most common method for studying the effects of alcohol taxes on alcohol-related outcomes is to assess how they (or the prices they influence) relate to those outcomes over time, while controlling for potential confounding factors. For most of the studies in this review, the reported results were either directly reported as elasticities or were transformed into elasticities. These were then directly compared with elasticities calculated from other studies. An elasticity represents the percentage change in a dependent variable associated with a 1% increase in an independent variable (e.g., price or tax rate). For example, a price elasticity of  $-0.5$  means that a 10% increase in price would be expected to result in a 5% decrease in the outcome of interest. Tax elasticities have a similar interpretation, but cannot be directly compared with price elasticities because taxes represent only a fraction of the total purchase price (resulting in smaller values for tax elasticities). In most cases for which

elasticities were not reported in the original studies, only the direction and significance of the reported effects could be evaluated in this review.

Because elasticities are measures of relative change, they provide a common metric for comparing and aggregating related, but not identical, outcomes (e.g., different measures of alcohol consumption; different types of motor-vehicle crashes). In general, measures of alcohol consumption fell into two broad categories: those that evaluate indices of consumption at the societal level (e.g., total alcohol sales) and those that evaluate consumption at the individual level (e.g., self-reported binge drinking). Measures of alcohol-related harms were grouped into broad categories of related outcomes, such as motor-vehicle crashes, liver cirrhosis, violence, alcohol dependence, and all-cause mortality.

For most of the outcomes of interest in this review, results were synthesized descriptively, without the use of any summary effect measures, due to a substantial amount of variation in the specific outcomes assessed and in the units used to measure the effects of changes in taxes or prices. The only outcome for which both enough studies and sufficiently similar results were found to allow a quantitative synthesis of the results was societal-level alcohol consumption. Data from these studies were summarized graphically and by using descriptive statistics, specifically medians and interquartile intervals. These results were also stratified on several variables considered by the review team to be potentially important effect modifiers (e.g., study design), allowing for an assessment of the robustness and generalizability of the results. This approach to synthesis was primarily chosen for the following two reasons. First, because many of the included studies had some overlap with respect to the locations and time periods covered in their analyses, their results were not completely independent. Second, many of these studies did not report results in a way that allowed for the calculation of CIs for their elasticities.

For studies that reported stratified results (e.g., separate price elasticities for beer, wine, and spirits), the median value across the relevant strata reported in that study was used for the calculation of summary statistics. This approach prevented studies that reported multiple outcomes from having undue influence on the summary statistics.

## Evidence Synthesis

### Description of Included Studies

A total of 78 papers<sup>24–101</sup> reported on studies that met the review inclusion criteria. Only some of the outcomes from one study<sup>83</sup> were included because not all of its analyses met quality of execution criteria. Five other studies<sup>70,88–91</sup> were excluded from the review because they failed to meet quality of execution criteria. Detailed descriptions of the included studies are available at [www.thecommunityguide.org/alcohol/supportingmaterials/SETincreasingtaxes.html](http://www.thecommunityguide.org/alcohol/supportingmaterials/SETincreasingtaxes.html).

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Most studies assessed total alcohol consumption at the societal level (i.e., per capita alcohol consumption). The design of these studies varied across countries. Most studies conducted outside the U.S. used interrupted time-series designs, because alcohol taxes in other countries tend to be set at the national level, and as such, it is generally not possible to do intra-country comparisons. In contrast, most of the U.S. studies used a panel study design, in which multiple states were assessed over time, allowing each to serve as a comparison for the others. These studies included both those that accounted for between-state differences using a fixed-effects approach (whereby stable between-state differences are controlled for by dummy coding) and those that used a random-effects approach (whereby between-state differences in variables other than tax or price are controlled for by including important predictors of alcohol consumption in the model). The remaining studies assessed measures related to excessive drinking (e.g., the prevalence of underage or binge drinking) or alcohol-related harms, the most common being outcomes related to motor-vehicle crashes.

### Intervention Effectiveness

**Alcohol price and overall consumption.** Of the studies in the review, 50 assessed overall alcohol consumption; 38 (76%) of these reported price elasticities<sup>25,27,33–38,40,43,45,47,48,52,53,57,63,65,67,71,73,74,77,78,80–82,84,92–95,97</sup> (six of these studies came from one paper<sup>80</sup> that calculated elasticities for multiple countries). Almost all of these 38 studies (95%) reported negative price elasticities, indicating that higher prices were associated with lower consumption. These results were quite consistent across beverage type, with median elasticities ranging from  $-0.50$  for beer to  $-0.79$  for spirits (Figure 2). Similarly, interquartile intervals for beer, wine, and spirits were also consistent across beverage type, with the 25th percentile elasticity ranging from  $-0.91$  to  $-1.03$ , and the 75th percentile ranging from  $-0.24$  to  $-0.38$ . Results for studies of overall ethanol consumption across beverage types were somewhat more variable because of the presence of several outliers with very large elasticities; for this outcome, the 75th percentile was comparable to that for the other outcomes ( $-0.50$ ), but the 25th percentile had a substantially larger absolute value ( $-2.00$ ).

As indicated in Table 2, the price elasticities reported in the reviewed studies were also quite consistent when evaluated by study characteristics (i.e., design suitability, model type, time period, and location). Across all of the nine strata examined, median elasticities ranged from  $-0.51$  to  $-0.90$ , the 25th percentile elasticities ranged

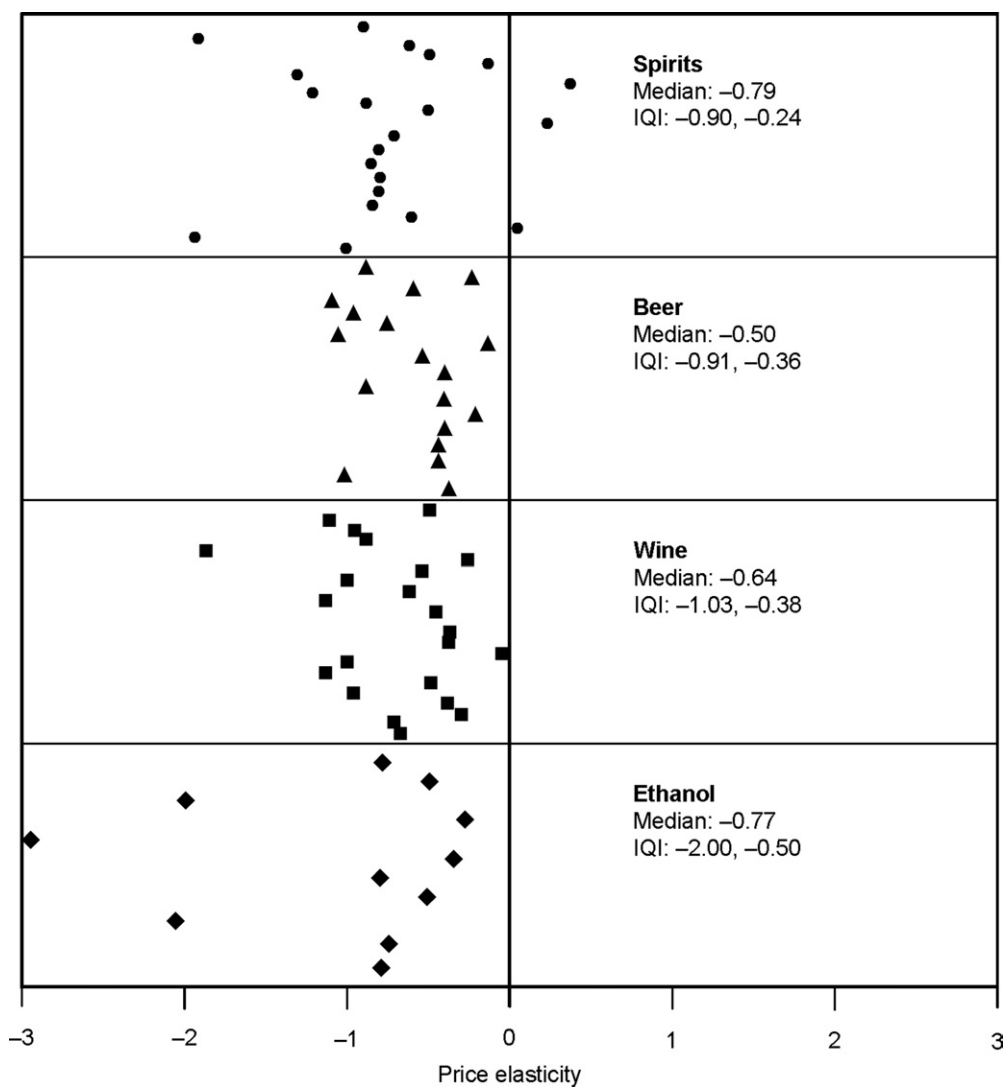
from  $-0.78$  to  $-1.10$ , and the 75th percentile elasticities ranged from  $-0.32$  to  $-0.50$ . The most notable differences in elasticities across strata were among panel studies that used fixed- versus random-effects regression models. In general, fixed-effects models tended to produce elasticities of slightly smaller magnitude than did random-effects models. This might be expected because the elasticities from fixed-effects models do not account for between-state differences in taxes that are stable over time (although these models have several other desirable qualities).

Of the 50 studies that assessed overall alcohol consumption, 12 studies<sup>29,31,32,39,41,49,54,75,76,83,98,99</sup> assessed the relationship between price and overall consumption, but these studies did not provide price elasticities or sufficient information to calculate them. Many of these studies reported

the results of multiple analyses that produced separate results for different subpopulations, beverage types, or analytic models with different parameters. In eight of these studies,<sup>29,31,32,39,41,54,76,83</sup> all of the reported results indicated that higher prices were associated with lower alcohol consumption; in seven,<sup>29,31,32,39,41,54,83</sup> results were significant across all analyses, and one<sup>76</sup> had results of mixed significance across analyses. The other four studies<sup>49,75,98,99</sup> had mixed results across beverage types or analytic models, with some results in the expected direction and some in the opposite direction.

**Alcohol price or taxes and individual consumption patterns.** Sixteen studies<sup>24,46,53–56,58–62,64,68,72,96,102</sup> in the review used survey data to evaluate the effects of alcohol prices or taxes on individual alcohol consumption patterns. Most of these studies assessed the prevalence of alcohol consumption among youth aged  $<25$  years, primarily underage youth. Respondent groups included high school students, college students, young people in the general population, and adults in the general population. All but two of these studies<sup>54,59</sup> were conducted in the U.S.

Of the nine studies<sup>24,46,56,58,60–62,64,68</sup> that assessed the relationship between alcohol price or taxes and drinking prevalence among young people, six<sup>46,56,58,60,61,68</sup> consistently indicated that higher prices or taxes were associated with a lower prevalence of youth drinking (four with one or more significant findings). Three of these studies reported price elasticities:  $-0.29$  for drinking among high school students;<sup>46</sup>  $-0.53$  for heavy drinking among



**Figure 2.** Scatterplot showing the association between alcohol price elasticities and excess consumption as measured by societal alcohol consumption. Each data point represents a single study's elasticity estimate for the given beverage type. IQR, interquartile interval



**Table 2.** Medians and interquartile intervals for price elasticity of alcohol consumption, stratified by study characteristics

Characteristic (no. of studies)	Median elasticity	Interquartile interval
<b>Design suitability</b>		
Greatest suitability (16)	−0.76	−1.06 to −0.50
Moderate suitability (16)	−0.51	−0.85 to −0.39
Least suitable (6)	−0.68	−0.94 to −0.32
<b>Model type</b>		
Random effects (7)	−0.90	−1.10 to −0.50
Fixed effects (8)	−0.69	−0.78 to −0.40
<b>Time period<sup>a</sup></b>		
Before 1963 (19)	−0.61	−0.90 to −0.38
1963 or later (19)	−0.76	−0.89 to −0.44
<b>Location</b>		
U.S. (21)	−0.63	−0.90 to −0.44
Non-U.S. (17)	−0.68	−0.88 to −0.37

<sup>a</sup>First data point in time-series

those aged 16–21 years<sup>58</sup>; and −0.95 and −3.54, respectively, for binge drinking among men and women aged 18–21 years.<sup>61</sup> The three remaining studies<sup>24,62,64</sup> reported mixed results across different analyses, with the majority of their effect estimates indicating an inverse relationship between tax or price and drinking observed in the studies above.

The nine studies that assessed the relationship between price or taxes and alcohol consumption patterns in adults or in the general population also generally found that increasing the prices or taxes on alcoholic beverages was associated with a lower prevalence of excessive alcohol consumption and related harms. Two of these studies assessed the relationship between alcohol price and the prevalence of binge drinking using data from the National Longitudinal Survey of Youth, which followed a group of people aged 14–22 years in 1979.<sup>55,68</sup> In a cohort of those aged 25–26 years from this survey, higher prices were associated with significant decreases in both overall alcohol consumption and frequent binge drinking (more than four episodes per month).<sup>68</sup> However, in a subsequent study of a cohort of those aged 29–33 years, higher prices were not significantly associated with the overall prevalence of binge drinking, and the direction of effects varied across beverage types.<sup>55</sup> Other studies based on surveys of the general adult population found that higher alcohol prices were associated with a lower overall prevalence of current drinking<sup>72</sup> and binge drinking,<sup>53,72,102</sup> and with a lower frequency of binge drinking.<sup>53,72,96,102</sup>

Three studies reported elasticities for the relationship between price and binge drinking; these ranged from −0.29 to −1.29, levels that are comparable to those for overall societal-level consumption.<sup>53,61,96</sup> Two additional studies evaluated a tax change in Switzerland that resulted in a 30% to 50% decrease in the price of imported spirits.<sup>54,59</sup> These studies found that the change was associated with a small (2.3%) increase in the prevalence of any drinking, and larger increases in measures of excessive alcohol consumption, specifically binge drinking (3.4%) and heavy drinking (9.3%). It is also noteworthy that the most marked increases in spirits consumption occurred among young men.

In summary, most studies that were included in this review found that higher taxes or prices were associated with reductions in alcohol consumption in general and excessive alcohol consumption in particular. Although these effects were not restricted to a particular demographic group, there is some evidence that they may be more pronounced among groups with a higher prevalence of excessive alcohol consumption (e.g., young men).

**Alcohol price or taxes and alcohol-related harms.** Twenty-two studies in the review evaluated the effects of changes in alcohol price<sup>28,44,51,61,72,83,93,100</sup> or taxes<sup>24–26,29–31,66,69,85–87,98,101,103</sup> on various alcohol-related harms. The most common outcomes evaluated were motor-vehicle crashes (including crash fatalities), various measures of violence, and liver cirrhosis. The studies were primarily conducted in the U.S., using state-level data.

**Motor-vehicle crashes and alcohol-impaired driving.** Eleven studies evaluated the effects of alcohol price<sup>44,72,93,100</sup> or taxes<sup>24,26,29,30,86,98,103</sup> on motor-vehicle crashes (Table 3). These studies found that the relationship between alcohol prices or taxes and injuries and deaths due to motor-vehicle crashes was generally significant and of a comparable magnitude to the relationship between these variables and alcohol consumption. The numeric values of the reported elasticities are substantially higher for studies that assessed the effects of alcohol prices than for those that assessed changes in alcohol taxes. This reflects the fact that taxes represent a relatively small proportion of the total purchase price of alcoholic beverages, so a larger proportional increase in taxes is necessary to achieve the same effect on the final purchase price of alcoholic beverages as a smaller proportional increase in the price itself. The reported elasticities were also generally higher for studies that assessed outcomes more directly attributable to alcohol consumption (e.g., alcohol-related crashes) than to those for which the relationship to alcohol consumption was less direct (e.g., all crash fatalities).

Three studies evaluated the relationship between alcohol prices<sup>44,61</sup> or taxes<sup>66</sup> and self-reported alcohol-impaired driving. These studies consistently found that alcohol-impaired driving was inversely related to the price of alcoholic beverages. The estimated price elasticities were similar for samples of Canadian<sup>44</sup> and U.S.<sup>61</sup> adults (range of  $-0.50$  to  $-0.81$ ; all  $p < 0.05$ ). The U.S. study stratified their sample by age in addition to gender, and reported price elasticities of  $-1.26$  to  $-2.11$  (both with  $p < 0.05$ ) for men and women aged 18–21 years, respectively.<sup>61</sup> The estimated tax elasticities from the remaining study were substantially larger for women than men ( $-0.29$  vs  $-0.06$ ), but neither estimate was significant.<sup>66</sup>

### Non-motor-vehicle

**mortality outcomes.** Six studies evaluated the effects of alcohol price<sup>25,28,72,83,93</sup> or taxes<sup>31</sup> on nontraffic deaths. Despite substantial variability in their individual effect estimates, all six studies found that higher alcohol prices were associated with decreased mortality.

Five studies evaluated the relationship between alcohol prices and deaths from liver cirrhosis.<sup>25,28,72,83,93</sup> The two studies that reported results as elasticities produced substantially different elasticity estimates for this outcome,  $-0.90$  ( $p < 0.05$ )<sup>93</sup> and  $-0.01$  ( $p > 0.05$ ).<sup>28</sup> Results of another study indicated that a \$1 increase in the spirits tax would lead to a 5.4% decrease in cirrhosis ( $p < 0.05$ ).<sup>25</sup> Another found a nonsignificant effect in the expected direction.<sup>72</sup> The final study found a strong correlation of  $-0.87$  between alcohol prices and cirrhosis deaths.<sup>83</sup> Although all of these studies indicate a consistent relationship between higher prices and lower cirrhosis mortality, there are substantial differences in the estimated strength of this relationship, which may be due to methodologic differences among studies.

One of the studies that evaluated cirrhosis mortality also assessed the relationship between alcohol price and several other causes of death.<sup>72</sup> The researchers found

**Table 3.** Results of studies evaluating the relationship between alcohol prices or taxes and motor-vehicle crashes

Study	Independent variable	Dependent variable	Elasticity (p-value)
<b>Price elasticity studies</b>			
Cook (1981) <sup>93</sup>	Ethanol price <sup>a</sup>	Fatalities	$-0.70$ (NR)
Adrian (2001) <sup>44</sup>	Ethanol price <sup>a</sup>	Alcohol-related crashes	$-1.20$ ( $<0.05$ )
Sloan (1994) <sup>72</sup>	Ethanol price <sup>a</sup>	Fatalities	$<0$ ( $>0.05$ )
Whetten-Goldstein (2000) <sup>100</sup>	Ethanol price <sup>a</sup>	Alcohol-related fatalities	$<0$ ( $>0.05$ )
<b>Tax elasticity studies</b>			
Chaloupka (1993) <sup>26</sup>	Beer tax	Alcohol-related fatalities, all ages	$-0.097$ ( $<0.05$ )
	Beer tax	Alcohol-related fatalities, youth aged 18–20 years	$-0.156$ ( $<0.05$ )
Evans (1991) <sup>86</sup>	Beer tax	Single-vehicle nighttime fatalities	$-0.12$ ( $<0.05$ )
Ruhm (1996) <sup>30</sup>	Beer tax	Nighttime fatalities, youth aged 15–24 years (by age)	$-0.18$ ( $<0.05$ )
Saffer (1987) <sup>42</sup>	Beer tax	Fatalities, youth aged 15–24 years (by age)	$-0.18$ to $-0.27$ (all $<0.05$ )
Ruhm (1995) <sup>29</sup>	Beer tax	Fatalities	$<0$ ( $<0.05$ )
Mast (1999) <sup>98</sup>	Beer tax	Fatalities	$<0$ ( $>0.05$ )
Dee (1999) <sup>24</sup>	Beer tax	Nighttime fatalities, youth aged 18–20 years	$>0$ ( $>0.05$ )

<sup>a</sup>Average price per ounce of ethanol across beer, wine, and spirits

that there was a significant ( $p < 0.05$ ) inverse relationship between the price of alcoholic beverages and deaths from alcohol-related cancers (e.g., breast cancer) and suicide, and a nonsignificant ( $p > 0.05$ ) relationship between alcohol prices and deaths from homicides, falls, fires/ burns, and other injuries. Although these findings are surprising given the stronger relationship between alcohol consumption and intentional and unintentional injuries, the findings were robust across several regression models.

One study assessed all-cause mortality using a two-stage process.<sup>31</sup> In the first stage, the authors assessed the relationship between alcohol taxes and sales, and found that a one-cent increase in taxes per ounce of ethanol (a tax increase of approximately 10%) would be expected to result in a 2.1% decrease in sales. In the second stage, they found that a 1% decrease in alcohol sales was associated with a 0.23% decrease in all-cause mortality rates ( $p < 0.05$ ).

**Violence outcomes.** Three additional studies found that higher alcohol taxes are associated with decreased violence.<sup>69,85,101</sup> When the differences among tax and price elasticities are taken into account, the strength of the relationships reported in these studies were comparable to those found for alcohol consumption outcomes. The first

study estimated that beer tax elasticities on violent crime rates in the U.S. were  $-0.03$  ( $p>0.05$ ) for homicide;  $-0.03$  ( $p>0.05$ ) for assault;  $-0.13$  ( $p<0.05$ ) for rape; and  $-0.09$  ( $p<0.05$ ) for robbery.<sup>101</sup> The other two studies assessed the relationship between beer taxes and violence toward children, with different methods using overlapping samples. In the first analysis,<sup>69</sup> tax elasticities were  $-0.12$  ( $p<0.05$ ) for any violence toward children and  $-0.16$  ( $p<0.10$ ) for severe violence toward children. The subsequent analysis found that these results appeared to be due to an influence of taxes on violence by women but not by men.<sup>85</sup>

**Other outcomes.** Two studies evaluated the association between alcohol prices and two other health-related outcomes: alcohol dependence and sexually transmitted diseases. The first estimated an alcohol price elasticity for alcohol dependence of  $-1.49$  ( $p<0.05$ ).<sup>51</sup> The second used multiple methods of evaluating the effect of tax changes on sexually transmitted diseases, and found robust effects on rates of both gonorrhea and syphilis.<sup>87</sup>

## Applicability

The Law of Demand<sup>4</sup> states that the inverse relationship between the price of a commodity and the quantity demanded is almost universal, and that only the strength of this relationship will vary across commodities or population groups. Consistent with these expectations, estimates of price elasticity for societal levels of alcohol consumption were robust across the various high-income economies in North America, Europe, and the Western Pacific Region evaluated in the studies in this review. Although results for harms related to excessive consumption came primarily from the U.S. and Canada, these findings are likely to be broadly applicable across high-income countries.

One important factor hypothesized to affect the strength of price elasticities for alcohol across different population groups is disposable income. Specifically, groups with less disposable income, such as underage drinkers, may be expected to be more sensitive to changes in alcohol prices than those with more disposable income.<sup>104</sup> Unfortunately, based on the studies in this review, it was not possible to determine whether alcohol price elasticities differ significantly on the basis of age or income. Furthermore, although the reviewed studies provided evidence that changes in alcohol prices affect excessive consumption (e.g., the prevalence and frequency of binge drinking), the available data were not adequate to assess potential differences in price elasticities based on drinking pattern (i.e., between excessive and nonexcessive drinkers).

## Economic Efficiency

Our systematic economic review identified two studies that estimated the cost effectiveness of alcohol tax intervention based on modeling.<sup>10,105</sup> The first study<sup>105</sup> assessed the costs and outcomes of 84 injury prevention interventions for the U.S. and found that an alcohol tax of 20% of the pretax retail price offered net cost savings (i.e., the savings outweigh the costs) even after taking into account the adverse economic impact of reduced alcohol sales. The second study<sup>10</sup> analyzed the comparative cost effectiveness of alternative policies to reduce the burden of hazardous alcohol use for 12 WHO subregions and found that taxation was the most effective and cost-effective intervention in populations with a 5% or greater prevalence of heavy drinkers. The costs associated with this intervention included the cost of passing the legislation itself, and the cost of administering and enforcing the laws once they are passed. Effectiveness was assessed using disability-adjusted life-years (DALYs), a standard measure of global health impact that considers the impact of an intervention on healthy years of life lost as a result of either death or disability. For the Americas A region, consisting of the U.S., Canada, and Cuba, which is the region most relevant to this review, the intervention costs for current taxation were \$482,956 (converted to 2007 dollars using the Consumer Price Index) per 1 million population per year, based on a 10-year implementation period and discounted at 3% per year to reflect the time value of money. The cost was assumed to stay the same when the tax was increased by 25% or 50%. Current taxes were estimated to prevent 1224 DALYs per 1 million population per year, yielding an average cost-effectiveness ratio for this intervention of approximately \$395 per DALY averted. This is much less than the average annual income per capita in these three countries, a threshold for an intervention to be considered very cost effective that was proposed by the Commission on Macroeconomics and Health.<sup>106</sup> The DALYs averted increased to 1366 and 1489 per 1 million population per year when taxes were increased by 25% and 50%, respectively. Because these incremental DALYs averted could be achieved without any increase in costs, these increases in taxes improve cost-effectiveness estimates relative to the current tax scenario. To obtain country-specific estimates of the DALYs saved per country as a result of this intervention, the regional analysis needs to be adjusted using country-specific data. Such estimates are limited by the assumptions made and the data available.

## Barriers to Implementation

The level of taxation of alcoholic beverages has economic effects on several groups, including federal,



state, and local governments; affected industry groups; and the general population of alcohol consumers. Whereas raising alcohol taxes may provide an important source of revenue for governments, such tax increases may be resisted by some industry groups and consumers. However, public support for increased alcohol taxes increases substantially when tax revenues are specifically directed to fund prevention and treatment programs instead of being used as an unrestricted source of general revenue.<sup>107</sup>

## Other Benefits or Harms

In addition to the direct public health outcomes evaluated in this review, the primary benefit of increased alcohol excise taxes is that they can provide a source of revenue to support programs to prevent and treat alcohol problems. They also can provide some compensation for the societal costs associated with excessive alcohol consumption that are not borne by the drinker (i.e., “external” costs). Economic analyses suggest that alcohol taxes would need to be increased substantially to address adequately such external costs as crime, alcohol-related crashes, domestic violence, and productivity losses.<sup>18,108</sup>

A potential concern is that increases in alcohol taxes may have a greater proportional economic impact on people with lower incomes (i.e., alcohol taxes may be regressive). However, alcohol taxes constitute a minor proportion (i.e., <1%) of the tax burden of Americans, including those with low incomes. As such, concerns about the regressive nature of such taxes could be readily addressed by compensatory changes in other elements of the tax system. In addition, the amount of tax paid is directly related to the amount of alcohol consumed, and thus increases in alcohol excise taxes will be disproportionately paid by excessive drinkers, who also experience most of the alcohol-related harms and thus generate most alcohol-attributable economic costs. Furthermore, the beneficial economic results of reducing excessive alcohol consumption and related harms may also be disproportionately greater for people with low incomes. Lower-income people may be particularly vulnerable to the harmful consequences of excessive alcohol consumption—consumed by themselves or others—because of factors such as lower rates of health insurance coverage, which may result in lack of or incomplete treatment for alcohol-related illness or injuries. Increasing alcohol excise taxes could also directly benefit low-income populations if the revenue generated from these taxes is used to help improve the availability of healthcare services for uninsured and other vulnerable populations.

## Summary

The reviewed studies provide consistent evidence that higher alcohol prices and alcohol taxes are associated with reductions in both excessive alcohol consumption and related, subsequent harms. Results were robust across different countries, time periods, study designs and analytic approaches, and outcomes. According to *Community Guide* rules of evidence,<sup>19</sup> these studies provide strong evidence that raising alcohol taxes is an effective strategy for reducing excessive alcohol consumption and related harms.

Most of the studies that were included in this review assessed the relationship between alcohol prices and the outcomes of interest using price elasticities. Alcohol-related harms that were well represented in the literature reviewed included alcohol-impaired driving, motor-vehicle crashes, various measures of violence, and liver cirrhosis. For the largest body of evidence in this review—that is, societal levels of alcohol consumption—the majority of estimates of price elasticity fell within the range of approximately  $-0.30$  to  $-1.00$ , indicating that a 10% increase in alcohol prices would be expected to result in a 3% to 10% decrease in alcohol consumption. These results indicate that alcohol consumption is responsive to price, and suggest that the impact of a potential tax increase is likely to be proportional to its size. It would also be reasonable to expect that alcohol price elasticities may vary across population groups by age and disposable income, among other factors, but assessment of such group differences was not possible using results from the studies in this review.

## Research Gaps

The volume and consistency of the evidence reviewed here suggests little need for additional research on the basic questions of whether changes in alcohol taxes and price affect excessive alcohol consumption and related harms. Nonetheless, studies published subsequent to the 2005 cutoff date for this review continue to indicate the public health benefits that accrue from increasing alcohol taxes. For example, a recent meta-analysis found very similar mean price elasticities for alcohol consumption as were found in this review.<sup>109</sup> Similarly, a recent study of alcohol-related disease mortality found that substantial alcohol tax increases in Alaska in 1983 and 2002 resulted in estimated reductions of 29% and 11%, respectively.<sup>110</sup>

However, additional research is needed to assess:

1. Whether changes in alcohol prices differentially affect drinking behavior and health outcomes for important subgroups of the population, such as underage young people.

2. The relative benefits of increasing taxes on all alcoholic beverages simultaneously, versus selectively increasing taxes on specific beverage types. This evaluation should be considered in light of known differences in the beverage preferences of binge drinkers, historic changes in tax rates across beverage types, and the effect of inflation on real tax rates by beverage type.
3. The impact of different approaches to taxing alcoholic beverages on excessive alcohol consumption and related harms. Specific emphasis should be placed on the impact of alcohol sales taxes, where taxes are calculated as a proportion of the total beverage price; the potential impact of standardizing alcohol taxes across beverage types based on alcohol content; and the potential impact of alcohol taxes levied by local governments on a per-drink basis in on-premise, retail alcohol outlets (i.e., tippler taxes).

Author affiliations are shown at the time the research was conducted. The names and affiliations of the Task Force members are listed at [www.thecommunityguide.org](http://www.thecommunityguide.org).

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# BROOKINGS

Report

## Measuring the loss of life from the Senate's tax cuts for alcohol producers

Adam Looney Wednesday, November 22, 2017

**T**he government taxes beer, wine and spirits for a couple of reasons: (1) To raise revenue and (2) to offset the costs—economists call them “externalities”—that drinking imposes on society, such as accidents caused by drunk drivers or higher rates of crime.

The Senate tax reform bill introduced in early November includes deep cuts to federal excise taxes on alcohol producers—cuts will lead to more drinking and thus more alcohol-related deaths and violence.

Based on empirical studies measuring the link between alcohol taxes and alcohol-related injuries, I estimate the legislation will cause between 280 and 660 additional motor vehicle deaths a year and approximately 1,550 total alcohol-related deaths annually from all causes. ([Read more here on how I arrived at this estimate.](#)) Of course, the economic costs associated with alcohol extend well beyond deaths and include alcohol-related injuries, crime, domestic violence, alcohol-related disease, and associated costs to families and local law-enforcement and health-providers.

Despite being billed as tax cuts for “Craft Beverage” producers, the benefits will accrue to producers across the board, providing windfalls to the large oligopolies that dominate the beer, wine, and spirits industry—and to foreign producers. And the fine print of the tax cuts will create compliance nightmares, particularly for our Customs and Border Patrol.

Based on economic evidence of the negative externalities imposed by alcohol, the total local, state and federal tax on alcohol should be roughly four times *higher* than it is now, and certainly not lower. Even modest increases in the rate, and indexing the tax for

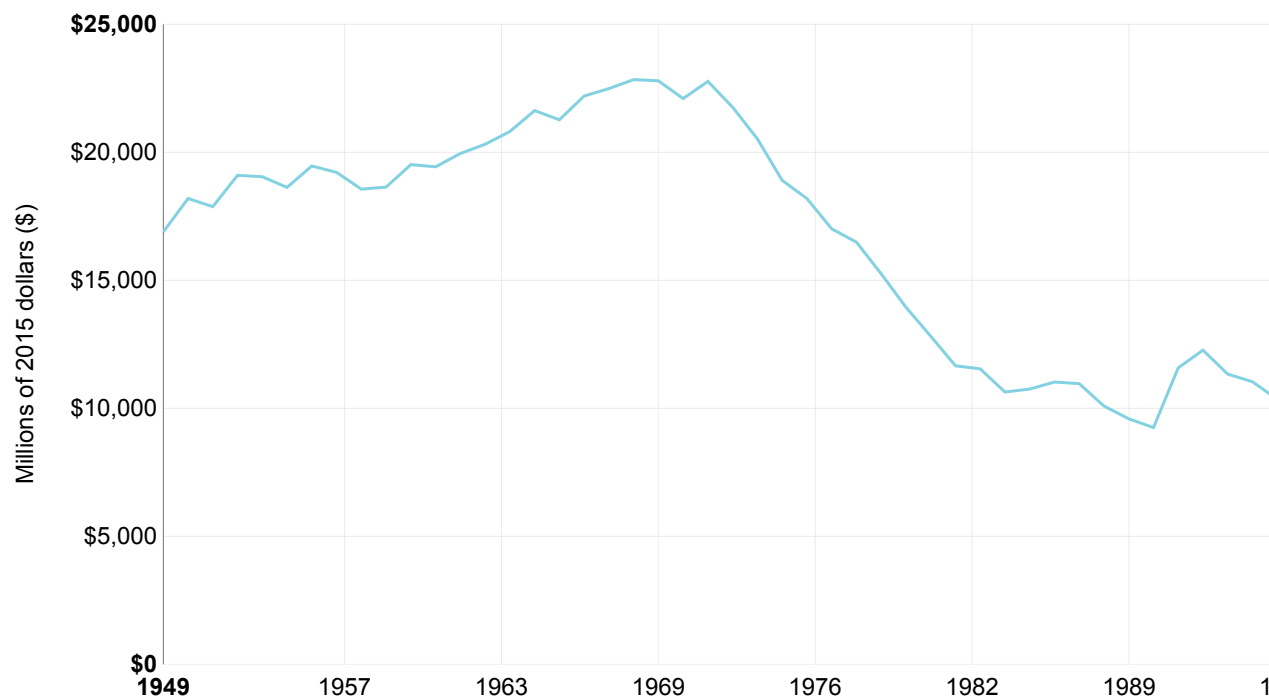
inflation, would be improvements relative to current law. Rather than establishing new tax preferences based on production levels and volumes—which are hard to enforce, complicated, and economically unjustified—a better approach is to harmonize the tax rate across beverages based on alcohol content and eliminate the special preferences and credits that currently exist based on production volume or use of flavors or additives.

## **Tax Revenues Under the Legislation**

The so-called “Craft Beverage” legislation inserted into the Senate Tax Bill would cut federal alcohol excise tax revenues by 16 percent by 2019. These cuts are achieved mostly by lowering rates on the first several thousand (or several million) units of wine, beer, and spirits produced or imported into the U.S. The tax rates on distilled spirits, for example, is reduced by 80 percent on the first 100,000 gallons produced or imported.

The current tax rates, which have not been increased since 1991 and are not indexed for inflation, have eroded by an average of 36 percent in real terms time since 1991 (using the PCE deflator). The following chart shows historical alcohol excise tax revenues in inflation-adjusted terms and the consequences of the proposed new cuts to alcohol taxes in 2018 and 2019. The legislation would send alcohol taxes down by 16 percent to their lowest level since at least 1950.

## Alcohol Excise Tax Revenue



Note: Numbers forecasted for 2018 and 2019

*Source: Federal Budget Historical Tables , Joint Committee on Taxation, Author's calculations*

When adjusted for changes in prices generally (using the PCE deflator), federal excise taxes on beer, wine, and spirits have decreased by a substantial 71 percent, 66 percent, and 80 percent, respectively, since 1950.

Not only do these tax cuts add to the deficit, they increase the negative social costs associated with alcohol use.

## What's the right tax rate on alcohol? Externalities associated with alcohol consumption

Negative externalities associated with alcohol consumption provide an important justification for imposing an excise tax. The externalities of alcohol primarily stem from three sources: motor vehicle accidents, violence (including domestic abuse), and non-



actuarially fair medical and pension costs (less offsets from reduced lifespans).

For instance, Cook and Durrance (2011) find that the 1991 alcohol excise tax reduced injury deaths by 4.7 percent or almost 7,000 deaths in 1991. Chaloupka et al. (1993) conclude that higher beer excise taxes are among the most effective means for reducing drinking and driving and that a policy adjusting the Federal beer tax for the inflation rate since 1951 would have reduced total fatalities by 11.5 percent between 1982 and 1988. Ruhm (1996) estimates that raising the beer tax by 78 percent in 1988 (to the level that prevailed in 1975) would have resulted in a 7 to 8 percent reduction in highway fatalities, saving 3,300 to 3,700 lives annually.

Other studies show similar reductions in alcohol-related disease, homicide, domestic violence, other crime, and suicide deaths (Chaloupka et al. 2002). Based on these studies, a 16 percent decline in alcohol excise taxes is estimated to result in between 281 and 659 additional motor vehicle fatalities in 2016 (relative to a baseline of 37,461 deaths) and 1,550 additional alcohol-related deaths (again, see the [note here](#) for more on the calculation).

The total cost of the externality associated with alcohol is substantially higher than the current set of federal and state tax rates (Manning 1989, 1991; Grossman, et al. 1993; Parry et al. 2009). Manning puts externality at \$0.48/oz in 1986 or about \$58 per proof gallon in 2015; Parry et al. (2009) estimate the externality at \$68 per alcohol gallon in 2000 or about \$45 per proof gallon in 2015 (about \$2.50 per six pack). By comparison, under current law, the federal tax per proof-gallon is \$13.50 for distilled spirits, \$4.84 for beer, and \$4.27 for most wine. According to a survey by the Congressional Research Service, current combined taxes on alcohol (including federal, state, and local taxes) are roughly one-quarter of the external costs of alcohol consumption (Lowry 2014).

Moreover, increases in tax rates are likely to be an effective and efficient way to reduce the negative externalities of alcohol consumption because they affect all alcohol consumers. The available evidence suggests that consumers respond to higher alcohol prices by reducing consumption (Roodman 2015; Lowry 2014). Studies generally have found that the absolute value of the price demand elasticity for alcohol is between 0.5 to 1.1, which means that a 1 percent increase in the price of alcohol reduces consumption by between

0.5 and 1.1 percent. (The elasticity is estimated to be at the lower end of the range for beer but higher for wine and spirits.) That suggests the historical erosion in the effective excise tax rate has contributed to higher alcohol consumption. Moreover, measures of costly behaviors, like the symptoms of alcohol dependence and abuse, appear to be even higher in the literature, suggesting that alcohol taxes deter or reduce the social costs of problematic drinking.

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**In summary, the empirical literature reviewing changes in state tax law and the 1991 federal tax increase demonstrate that alcohol excise taxes are an effective means to reduce alcohol-related fatalities, injuries, and crime.**

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In summary, the empirical literature reviewing changes in state tax law and the 1991 federal tax increase demonstrate that alcohol excise taxes are an effective means to reduce alcohol-related fatalities, injuries, and crime. Moreover, a consideration of the externalities associated with alcohol use suggests that Federal excise taxes on alcohol are too low and should be indexed to inflation at a higher level.

## **Problems with Complexity, Compliance, and Enforcement**

The legislation—particularly the substantially reduced tax rates based on production volume—will exacerbate existing problems and create new ones.

Alcohol excise tax rates are already complex. Tax rates on some alcohol products are based explicitly on the alcohol content of the product while rates on other products are not. Translating the tax rates to a proof gallon unit of analysis for the ease of comparison, it is clear the tax rates differ substantially across products; beer is taxed at \$4.8, wine at \$4.9, and spirits at \$13.5 dollars per proof gallon.<sup>[1]</sup> There are also preferential rates and credits for small domestic producers of beer (on the first 60,000 barrels) and wine (for the first 250,000 gallons). Finally, states levy their own taxes, with an average tax of \$0.25 for a

gallon of beer and \$0.8 for a gallon of wine, as well as \$4 for a proof gallon of spirits for the 34 states that do not directly control the sale of spirits (the rates in the remaining 17 states are more difficult to pin down as they have both explicit taxes and implicit taxes via mark-ups).

**Table 1: Current Tax Rates for Alcohol Products**

<b>Product</b>	<b>Tax Rate</b>	<b>Tax Rate per Proof Gallon<sup>[2]</sup></b>
<b>Beer</b>	\$0.58 per gallon <sup>[3]</sup>	\$4.8 per gallon
<b>Still Wine<sup>[4]</sup></b>		
14% Alcohol or less	\$1.07 per gallon	\$4.9 per proof gallon
14% to 21% Alcohol	\$1.57 per gallon	\$4.5 per proof gallon
21% to 24% Alcohol	\$3.15 per gallon	\$7 per proof gallon
<b>Sparkling Wine</b>		
Naturally Sparkling	\$3.40 per gallon	\$14.17 per proof gallon
Artificially Carbonated	\$3.30 per gallon	\$13.75 per proof gallon
<b>Hard Cider</b>	\$0.226 per gallon	\$2.46 per proof gallon
<b>Distilled Spirits</b>	\$13.50 per proof gallon	\$13.50 per proof gallon

In addition to these basic rates, special rates apply for certain producers. For brewers who produce less than 2 million barrels per calendar year, the tax rate is \$7 per barrel on the first 60,000 barrels and \$18 per barrel thereafter. For wine producers who produce less than 250,000 gallons of wine during a calendar year, a credit against the excise tax is available, but the wine must be produced in the U.S. For all wines except for naturally sparkling wines, the credit is \$0.90 per gallon on the first 100,000 gallons of wine produced in a calendar year. For hard cider, the credit is \$0.056 per gallon. The credit is

reduced by 1 percent per 1,000 gallons of wine produced in excess of 150,000 gallons of wine during the calendar year. In general, these special rates are costly to administer, reduce tax compliance, and distort consumer choices.

The new legislation would expand the preferential rates and credits for small producers and make those preferences more valuable with deep cuts in tax rates. Those provisions, which already apply to some domestic producers, already generate inefficient distortions and make the administration of the tax more costly. The expansion of such preferential rates by size of the manufacturer would be even more problematic. While billed as a tax cut on small producers, all producers would benefit from the preferential rates on their production up to the specified limit. As a result, the largest savings would accrue to the largest producers, not small brewers.

Applying the preferential rates to importers as well as domestic producers (as is likely to be required under WTO rules) would make these rules close to unenforceable because of either the lack of visibility or the lack of U.S. enforcement jurisdiction in monitoring production in foreign countries. Specifically, U.S. authorities (the Alcohol and Tobacco Tax and Trade Bureau and the Customs and Border Patrol) would be unable to verify the volume of wine, beer, and spirits produced by foreign producers. A large share of imported alcohol (or exported and re-imported alcohol) could likely qualify for the reduced rate. For instance, a large French producer who would not otherwise qualify for the lower rates could divide its production among multiple labels or multiple importers, each below the 250,000 bottle limit, evading the tax and producing a comparative advantage for the foreign producer over the American producer. Even for a foreign producer with greater than 250,000 bottles of production, it would be unclear which 250,000 bottles (or 100,000 gallons of spirits, or 60,000 barrels of beer) would qualify for the reduced rate, allowing multiple importers or distributors to claim (or attempt to claim) the tax benefit.

The different units and rates of taxation for similar classes of alcohol distort consumer choices and add complexity to the tax code; harmonization of rates across types of alcohol based on alcohol concentration would ease enforcement and compliance and simplify the tax system.

## **A Better Approach to Reforming Alcohol Excise Taxes**

The economic evidence suggests that alcohol taxes are too low—not too high—because of negative externalities associated with alcohol use, like drunk driving, violence, suicide, and crime. Based on these costs, the appropriate level of tax is likely to be several times higher than current law. However, even modest increases and indexing the tax for inflation would be improvements relative to current law.

Additionally, different rates on producers based on the volume of sales are complex, hard to enforce, and economically unjustified. Reforms aimed at simplification and efficiency should consider limiting or eliminating the credits and preferential rates that apply to flavor additives, small producers, and wine. Reforms should also consider harmonizing tax rates at a single tax rate per proof-gallon, to be applied based on alcohol content across all alcohol products.

But first and foremost, we should acknowledge that nearly all empirical evidence suggests more Americans will lose their lives as a result of the Senate's proposed change in tax policy. A reduction in excise taxes on alcohol will impose a higher cost than we should be willing to pay—the loss of human life.

## **Notes**

To estimate the additional motor vehicle and alcohol-related deaths that would result from the Senate tax cut, we look at Chaloupka et al. 1993; Ruhm 1996; Wagenaar et al. 2011; Cook and Durrance 2011. Wagenaar et al. (2011) show that a doubling of the tax would reduce alcohol-related mortality by an average of 35 percent and traffic crash deaths by 11 percent. Hence, a 16 percent reduction would lead to roughly 659 traffic deaths based on the 37,614 total traffic deaths in 2016 and about 1,550 alcohol-related deaths based on the 88,000 alcohol related deaths per year according to the NIH. Cook and Durrance (2011) found the doubling of the alcohol tax in 1991 lead to a 4.7 percent decline in fatalities; therefore, a 16 percent reduction would lead to a 0.75 percent increase in motor vehicle fatalities, or 281 deaths per year based on the 2016 level of motor vehicle fatalities. Ruhm (1996) finds that a 78 percent increase in taxes leads to a 7 percent to 8

percent decline in fatalities. Hence, a 16 percent reduction leads to a 1.4 percent to 1.6 percent increase in motor vehicle fatalities, or 537 to 614 deaths per year based on the 2016 level of motor vehicle fatalities.

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## Footnotes

1. 1 A proof gallon is a gallon of liquid that is 100 proof, or 50% alcohol.
2. 2 This calculation assumes that beer is 6% alcohol, 14% or less wine is 11% alcohol. 14% to 21% wine is 17.5% alcohol, 21% to 24% is 22.5% alcohol, sparkling wine is 12% alcohol, and hard cider is 4.6% alcohol.
3. 3 The tax is officially \$18 per barrel but is translated to gallons for ease of comparison; a barrel is equal to 31 gallons.
4. 4 Wines that contain more than 24 percent of alcohol by volume are taxed as distilled spirits.