

The Good, the Bad, and the
Ugly of Alcohol Consumption and Taxes

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Brief description:

The new contribution in these pages by Lhachimi et al. (2012) tallies up the net effects on mortality from internal and external causes that are likely to derive from changes in alcohol taxes in 11 countries within the European Union. Health economists prefer the efficiency of taxes to quotas or outright prohibition, but there are costs as well as benefits associated with any tax, because it drives a wedge between demanders and suppliers and thus reduces welfare. To guide public policy in this area, researchers should measure costs and benefits broadly defined, and Lhachimi et al. provide a useful first step.

Key words:

Health; drinking; behavior; public finance

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Anyone who has attended a “Subway Series” game of baseball played between the New York Yankees of the Bronx and their crosstown rival, the New York Mets of Queens, has probably left the park wishing that the price of beer had been even higher during the contest, at least in the cheap seats. There are excellent public transportation options in New York City, which lessen a chief concern about the immediate public health impacts of the overconsumption of alcohol. But unruly behavior of a less lethal but still unhealthy variety is often evident, even with the current “stadium tax” on beer of about 60 percent. International fans of football but not of hooliganism are of course also keenly aware of the external dangers of mass alcohol consumption, but in this editorial I will stick with examples that I know best.

There are internal dangers to health as well, most notably cirrhosis of the liver but also cardio and cerebrovascular disease and several cancers at high levels of consumption. Baseball fans will recall the great Yankee Mickey Mantle, his struggles with alcoholism and cirrhosis, his liver transplant, and his early death shortly thereafter. In moderation, alcohol may be associated with improved cardiovascular health and other outcomes. But excessive drinking, like excessive body weight, is a risk factor for several fatal diseases. The well-known gradient in body mass index by team loyalty in New York City does not to my knowledge have a clear analogue in drinking behavior. But given the broad differences in transit use, which harkens to one of the reasons why the Brooklyn Dodgers left for car-friendlier Los Angeles in 1957, there could be a gradient in alcohol-related traffic accidents.

The new contribution in these pages by Lhachimi et al. (2012) tallies up the net effects on mortality from these internal and external causes that are likely to derive from

changes in alcohol taxes and thus alcohol consumption in 11 countries within the European Union. Their detailed microsimulation model of health and mortality outcomes, the Dynamic Modelling for Health Impact Assessment (DYNAMO-HIA), allows policymakers to obtain estimates of deaths postponed through various interventions, defined as the additional individuals projected to be alive at some future date compared to a baseline. In another paper (Kulik et al., 2012), researchers have applied the DYNAMO-HIA to examine the population health impacts of policies that reduce smoking.

Health economists prefer the efficiency of taxes to quotas or outright prohibition, and we are happy to see renewed interest in public health and policy circles in the ability of excise taxes, such as a tax on alcohol, to improve popular well-being. The UK Licensing Act of 2003, which allowed bars and pubs to sell alcohol past 11 PM, may not have had much of a clear effect on public health (Durnford, Perkins, and Perry, 2008), but it represented a movement away from prohibition-style interventions, which in its extreme form has been linked rather counterintuitively to increased violence (Miron, 1999). At Yankee Stadium, beer sales in the cheap seats were halted during the Subway Series before the traditional moratorium in baseball at the end of the seventh inning; one could imagine such a policy could produce more unruliness through long lines and binge drinking early in the game.

As is true for any commodity, the price of alcohol is a key determinant of its demand. Raising the price of alcohol through an excise tax can reduce consumption and thus the adverse consequences for well-being that are associated with excessive drinking, most prominently traffic accidents but also alcohol-related diseases and crime (Chaloupka, Grossman, and Saffer, 2002). Recent interest in an excise tax on sugar-

sweetened beverages (SSBs) follows similar logic (Andreyeva, Chaloupka, and Brownell, 2011) and contrasts with a recent initiative by the New York City Health department to prohibit the sale of SSBs in quantities over 16 ounces. Economists prefer taxes to other types of interventions because they are more efficient, utilizing markets and the price mechanism to achieve a desired equilibrium, rather than dictating one and incentivizing illegal behavior. But stating a preference for an excise tax begs the questions of whether and how the original market equilibrium may be undesirable, and what the costs and benefits of imposing the tax may be.

The new paper by Lhachimi et al. (2012) quantifies an important array of benefits: the deaths postponed, or equivalently the life years gained. Health economists like to place dollar values on these in order to compare them to costs, although this is not without controversy. In any event, it is difficult to value the gains reported here because the paper does not provide much detail on whose lives have lengthened. There is yet more controversy about how the value of a life year may vary with age or other characteristics, but recent efforts have confirmed the intuitive result that age matters (Aldy and Viscusi, 2008). A more complete analysis could attempt to place a range of dollar values on the gains associated with reduced alcohol-related mortality.

The reason why we would like to measure the benefits in dollars is because there are costs associated with higher taxes on alcohol. There probably also are other benefits beyond the postponed deaths enumerated by Lhachimi et al., stemming for example from reduced domestic violence, fewer broken families, and so on. But taxes drive a wedge between demanders and suppliers that generally reduces economic well-being. To be sure, taxes on bad things that markets do not correctly price, like traffic congestion or pollution,

can improve welfare if they better reconcile social benefits and social costs. Taxes on cigarettes are a good example of this because of the dangers of second-hand smoke. In the case of a blanket tax on alcohol, which will be paid by light, moderate, and heavy drinkers alike, the normative justification is somewhat less clear. Even if the health benefits of light to moderate drinking are nonexistent, those types of drinkers will be economically hurt by increased taxes on alcohol, especially at rates as high as are considered by Lhachimi et al., some of which make the “stadium tax” look mild by comparison.

If only we could raise the price of beer only for those unruly fans in the cheap seats, who are ruining it for everyone else! Formal price discrimination, where suppliers offer different prices to different demanders, is illegal. Given the nature of the recent decision by the Supreme Court to uphold health insurance reform in the United States, however, it is perhaps conceivable that Congress also has the power to tax heavy drinkers more than light drinkers, unless that counts as a preexisting medical condition. Another way to go could be placing higher taxes on alcoholic beverages associated with riskier behaviors, or prohibiting them altogether, as the U.S. Food and Drug Administration did in 2010 with caffeinated alcoholic drinks. Differential alcohol taxation has a long and storied history in many countries; in the first decade of its existence, the U.S. imposed a federal tax on spirits to pay war debts, survived a concomitant popular uprising through newly asserted central authority, and never collected much tax revenue.

As a lover myself of both baseball and beer, which are complementary goods, I see both sides of the debate over alcohol taxes. I like enjoying the game in peace, getting home safely, and knowing that the folks in the cheap seats got home safely too; but I also

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would like to drink responsibly while enjoying the game, and I am not wealthy. To guide public policy in this area, researchers need to provide measures of both sides of this equation, identifying internal and external costs and benefits. Lhachimi et al. have provided a helpful step in this direction.

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