Medical Xpress

Alcohol taxes have never been lower: study

June 15 2020

Credit: Pixabay/CC0 Public Domain

Inflation has reduced American alcohol tax rates by 70% since 1933, according to a new study from Boston University School of Public Health (BUSPH) published in the *Journal of Studies on Alcohol and Drugs*.

With the alcohol industry seeing increased revenue during the COVID-19 pandemic, is it time for an update?

The coronavirus crisis has struck a blow to the American economy and to government budgets. But with liquor stores designated as essential businesses in most states, and loosened restrictions on alcohol home delivery and takeout (and perhaps also the emotional and lifestyle changes of this unprecedented time), the alcohol industry is seeing gains, with sales of beer, wine, and liquor up as much as 53% according to Nielsen figures.

In other words, the alcohol industry is benefitting from the pandemic, says Jason Blanchette, a postdoctoral associate in health law, policy & management at BUSPH. "I expect that pandemic bump will continue, because it's common for alcohol sales to increase during times of economic hardship and stress," he says.

"Why shouldn't the alcohol industry share in the pandemic pain?"

At the same time, alcohol taxes have never been lower, according to a study led by Blanchette.

The new study finds that inflation has reduced the relative value of alcohol taxes by 66% for beer, 71% for wine, and 70% for distilled spirits from when American alcohol taxation began in 1933 to 2018.

Alcohol taxes increased more or less in step with inflation until 1970, the study shows, when governments began raising most kinds of taxes less frequently, and by less. Throughout the 1970s, '80s, and into the present, alcohol taxes have fallen further and further behind inflation.

Now, facing down the effects that COVID-19 will have on the economy and on state and federal budgets, Blanchette says, revamped alcohol

taxes could give governments much-needed revenue without raising taxes on suffering industries, and could be structured to exempt bars and restaurants.

At the same time, he notes, alcohol taxes have long failed to cover the money governments spend on the harms of excessive drinking.

"Alcohol is notorious for costing government money, such as for first responders and medical costs to address domestic violence," Blanchette says, pointing to a study he co-authored last year with Dr. Timothy Naimi, professor of community health sciences at BUSPH and a physician and alcohol epidemiologist at Boston Medical Center. That study found that federal and state alcohol taxes cover only 25% of the amount of money spent by government on harms from alcohol.

"With people stuck at home, stressed and without jobs, right now is a good time to discourage excessive drinking with a tax," Blanchette says.

For the new study on taxes and inflation, Blanchette, Naimi, and Dr. Craig Ross, research assistant professor of epidemiology at BUSPH, used tax data from the Alcohol Policy Information System, Pacific Institute for Research and Evaluation, Wine Institute, and HeinOnline. They looked at state tax rates for beer, wine, and distilled spirits from the end of Prohibition in 1933 up through 2018, and analyzed these taxes' relative values as the U.S. dollar shrank.

They found that the average value of tax rates actually rose from 1933 to 1970, by 28% for beer, 5% for wine, and 8% for distilled spirits, before plunging.

By 2018, the average tax rate was $0.31 per gallon of beer, but the 1933 tax would be $0.90 in 2018 dollars. The average 2018 tax per gallon of distilled spirits was $4.25, compared to a 1933 value of $13.95 in 2018

dollars. And the average tax on a gallon of wine was $0.86 in 2018, whereas the 1933 rate in 2018 dollars was $2.91.

The researchers found that only 8% of specific alcohol taxes in 2018 had equal or greater values than at inception. More than two thirds of these taxes were less than half the inception value, and 17 states had beer taxes that were less than a fifth of the inception value.

Raising taxes is always politically difficult, Blanchette says, "but public revenue is badly needed for our economic recovery, and alcohol is one of those few non-essential products that legislators can safely tax during the pandemic."

Besides, he says, such a move wouldn't be a tax increase so much as an "inflation adjustment, to correct the growing tax breaks the industry has been receiving for 50 years."

More information: Jason G. Blanchette et al, The Rise and Fall of Alcohol Excise Taxes in U.S. States, 1933–2018, *Journal of Studies on Alcohol and Drugs* (2020). DOI: 10.15288/jsad.2020.81.331

Provided by Boston University School of Medicine