

Proposal to Increase State Taxes on Beer

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July 19, 2004

1. The State of Michigan is in need of more taxes in order to meet its obligations to its citizens.
2. The State of Michigan has demonstrated a commitment to raising taxes on products, such as cigarettes, that are known to be damaging to people's health and to result in significant economic harm, especially to high health costs.
3. A notoriously under-taxed product that causes significant health and economic harm is beer.
4. Raising the state tax on beer can significantly increase the tax money available to the State of Michigan.
5. Raising the state tax on beer will also save the State money because it will
 - a. reduce the numbers of people engaging in binge drinking, and
 - b. reduce the numbers of 12 – 20 year olds engaging in underage drinking,
 - c. reduce the numbers of people with alcohol and other drug addiction,
 - d. result in fewer highway fatalities (especially among young people),
 Thus reducing the costs to the taxpayers of alcohol-related health care.
 AND providing additional tax monies for prevention and treatment of alcohol and other drug disorders and for public education.

According to the *Fact Book on State Beer Taxes*,¹ it has been nearly 40 years since Michigan increased the beer tax rate.²

- Michigan's current Beer Tax Rate of \$.20 per gallon, is below average. The average for all states is \$.26 per gallon.
- Michigan now ranks 29th among the 50 states in its beer tax rate, making it one of the lowest 14 rates in the U.S.
- In the nearly 40 years since Michigan's Beer Tax Rate was increased, in 1966, inflation has reduced the income to the state by 80%. The **deflated tax rate now equals \$.04 per gallon and \$.0037 per 12 oz. can.**³

¹Center for Science in the Public Interest, <http://www.cspinet.org/booze/taxguide/040716BeerReport.pdf>.

²Of the states around us geographically, Illinois and Ohio raised their rates in the 1990's, Iowa and Indiana in the 1980's.

³Today, the [federal] beer tax amounts to \$18 per 31-gallon barrel or approximately 33 cents per six-pack. **Had the tax kept up with inflation since 1951, the rate today would be more than \$50 per barrel or more than a dollar per six-pack.** The beer industry's proposed rollback [H.R. 1305, which proposes to reduce the federal excise tax on beer to its 1951 level] would restore the 1951 tax rate of \$9 per barrel or about 15 cents per six-pack.

- No other product has been able to maintain its 1966 tax rate for the past 40 years. In fact, “because of inflation and lack of increases in tax rates, prices for off-premises alcoholic beverages have risen **more slowly than for all other consumer products combined.**” (75.2 percent of alcoholic beverages sold are purchased for off-premise consumption. Source: *Adams Beer Handbook, 2003.*)⁴

- In Michigan, the per capita income from alcohol taxes is **only 10% of the per capita costs for alcohol-related health care.** According to the World Tax Data Base (www.wtdb.org) as accessed on January 15, 2004:

Michigan’s Current Beer Tax Rate = .20 Alcohol Tax Collected=136,591,000
Alcohol Taxes Collected per capita=**\$13.74** (Calculated by dividing state revenue collections by the total state population.)

Alcohol-related Health Care Costs
per capita =**\$137.06** (Ensuring Solutions to Alcohol Problems. Online:
<http://www.ensuringsolutions.org/pages/pm.html#pb1>.
 Accessed 15 January.)

In other words, Michigan citizens are being billed for the 90% difference between taxes paid and costs created!

If the Beer Tax were raised enough to cover alcohol-related health costs, that is, by 90%, the tax per gallon would increase to \$49.40, the amount of tax collected would be about \$260 million, an increase in state revenues of about \$123 million. On the other hand, such an increase simply covers the health costs caused by alcohol; the state is well justified in considering a much larger increase both to make up for years of deflated tax income and to provide much needed additional revenue for alcohol prevention and treatment as well as other urgent needs. A 90% increase merely makes up for the 80% deflation over the past 38 years and adds only around \$.11 to the price of a can of beer.

In short, justice and equity necessitate raising taxes on beer, as does the State’s commitment to a healthier population.

⁴ Also, “state taxes on cigarettes average \$.60 per pack across the United States, whereas beer taxes average merely \$0.15 per six pack ... During the past decades, states have increased taxes on cigarettes hundreds of times, both to maximize revenue and to deter health-damaging smoking. In contrast, despite enormous costs and harm associated with beer consumption, **states have been generally unwilling to raise taxes on beer.**”

The reason most commonly cited for this egregious situation is the industry’s heavy contribution to political campaigns of state and federal legislatures (www.beersoaksamerica.org):

- The National Beer Wholesalers Association’s (NBWA) political action committee, using the name “Six-PAC,” is one of the top 20 PAC contributors to members of Congress, donating some \$2,065,250 to Senate and House candidates in 2002.
- Three out of four Americans are concerned that the beer industry gives money to legislators. Moreover, most Americans (69%) believe that it is inappropriate for politicians who accept money from the beer industry to vote on a bill to reduce the beer tax.

1. Reducing Binge and Underage Drinking and Highway Fatalities

According to the Governors Highway Safety Association (GHSA),⁵
 “[A]lcohol is already a major public health and safety crisis among the nation's youth:

1. **Alcohol kills 6.5 times more young Americans than all other illicit drugs combined.**
2. **Alcohol is the No. 1 drug problem among young people, who consume 10 percent of all beer sold in the U.S.** or 1.1 billion cans of beer annually.
3. **“[U]nderage drinkers consumed between 10 and 20 percent of all alcohol** downed in 2000, representing about \$11 to \$22 billion [dollars] in sales.”⁶
4. **Beer is the drink of choice in most cases of heavy drinking,** binge drinking, drunk driving and underage drinking.
5. **“[T]he top 20% of alcohol consumers account for about 87-89% of all of the alcohol consumed in the U.S.”**⁷
6. **“Most of the beer market derives from heavy drinking. The heaviest-drinking 10% of beer drinkers accounts for 43% of all reported beer consumption, and nearly 60% of all beer is consumed in amounts of five or more drinks per day.**
7. **Beer drinking by the top five percent of drinkers accounts for more than half (55%) of all alcohol consumed in hazardous amounts.”**⁸
8. **An estimated 1,400 college students (ages 18 to 24) die, 500,000 are injured, more than 70,000 are sexually assaulted, and 400,000 engage in unprotected sex while under the influence of alcohol each year. Last year alone, 2.1 million drove under the influence.”**⁹

GHSA Executive Director Barbara Harsha says, “One of the major causes of death and disabling injury on our highways is drinking and driving. **Teens make up a disproportionate number of these tragic deaths** with more than 2,300 killed nationwide in 2000 alone.”

⁵ Governors Highway Safety Association, 750 First St. NE, Suite 720, Washington DC 20002, Phone: 202-789-0942, www.statehighwaysafety.org.

⁶National Research Council and Institute of Medicine (2004). *Reducing Underage Drinking: A Collective Responsibility*. Committee on Developing a Strategy to Reduce and Prevent Underage Drinking, Richard J. Bonnie and Mary Ellen O'Connell, Editors. Board on Children, Youth, and Families, Division of Behavioral and Social Sciences and Education. Washington, DC: The National Academies Press. Online: <http://www.nap.edu/books/0309089352/html/>.

⁷Foster, S.E., Vaughan, R.D., Foser, W.H. & Falifano, J.A. (2003) Alcohol consumption and expenditures for underage drinking and adult excessive drinking. *Journal of the American Medical Association*, 289(8):989-995.

⁸Greenfield, T.K. & Rogers, J.D. (1999). Who drinks most of the alcohol in the U.S.? The policy implications. *Journal of Studies on Alcohol*. 60(1):78-89.

⁹ In Michigan, research by ALERT Labs has established that at one college,

Wendy J. Hamilton, National President of MADD goes on to say that the enforcement of the 21-year old minimum drinking age has saved lives, though underage drinking continues and must be tackled from as many directions as possible:

President Reagan made his mark on protecting the nation's roadways by signing the National Uniform Minimum Drinking Age Act on July 17, 1984. This key piece of legislation has come to be known as the 21 Minimum Drinking Age Law and has changed the face of drunk driving forever.

Enforcement of this law has helped save nearly 20,000 young lives from alcohol-related traffic crashes since its passage and, along with MADD, has raised public awareness about the dangers of underage drinking--specifically, **the negative impact of alcohol on the brain of those under 21 years old.**"¹⁰

However, "underage drinking is still the **nation's No. 1 youth drug problem, killing more youth than all other illicit drugs combined** and alcohol-related traffic fatalities for 15 to 20 year olds have begun increasing again to more than 2,400 in 2002."¹¹

In fact, "**Alcohol is the number one killer of young people in America:** Alcohol is a factor in the four leading causes of death among persons ages 10 to 24: (1) motor-vehicle crashes, (2) unintentional injuries, (3) homicide, and (4) suicide."¹²

Furthermore, "The **alcohol most favored by underage drinkers is beer.**"¹³ And, "**Heavy and binge drinking peak at age 21....**"¹⁴ Thus the heaviest drinking of beer by young people takes place during the teens, before reaching legal age.

¹⁰ June 8, 2004.

Negative effects on the brain cited by the American Medical Association include: permanent damage to the memory and reduced abilities to think critically and to learn new information, as well as limitations to the ability to make decisions and to reason effectively. See: *Consequences of Alcohol Use on the Brains of Children, Adolescents, and College Students*, and *Fact Sheet: Effects of Alcohol on Brains of Adolescents*, <http://www.alcoholpolicysolutions.net/>.

¹¹ MADD (www.madd.org).

¹² (from: Grunbaum, J., Kann, L., Kinchen, S.A., Williams, B.I., Ross, J.G., Lowry, R., & Kolbe, L.J. Youth risk behavior surveillance--United States, 2001. In: *Surveillance Summaries*, June 28, 2002. MMWR 2002;51(No. SS-4):1-64. Online: <http://www.cdc.gov/mmwr/preview/mmwrhtml/ss5104a1.htm>.)

¹³ National Research Council and Institute of Medicine (2004). *Reducing Underage Drinking: A Collective Responsibility*. Committee on Developing a Strategy to Reduce and Prevent Underage Drinking, Richard J. Bonnie and Mary Ellen O'Connell, Editors. Board on Children, Youth, and Families, Division of Behavioral and Social Sciences and Education. Washington, DC: The National Academies Press. Online: <http://www.nap.edu/books/0309089352/html/>.

¹⁴ Foster, S.E., Vaughan, R.D., Foster, W.H. & Califano, J.A. (2003). Alcohol consumption and expenditures for underage drinking and adult excessive drinking. *Journal of the American Medical Association*. 289(8):989-995.

This is especially important for Michigan because, according to a recent study, binge drinking is more prevalent in “the upper Midwest” than in the rest of the nation. Also, **“Acute intoxication from alcohol is a leading cause of death in the U.S.** It’s extremely common. It’s extremely dangerous -- not only for the drinker but society as a whole,” said study co-author Tim Naimi, a public-health physician with the CDC. “But binge drinking is still quite socially acceptable, and it’s really not been widely addressed as a health and safety issue.”¹⁵

And the GHSA points out that **“Economic reports estimate that the 1991 [federal] increase in beer taxes saves more than 600 young lives in alcohol-related crashes each year.... Research shows higher beer taxes result in fewer alcohol-related fatalities.”**¹⁶

We have not yet reached the point where we have done enough to limit underaged access to alcohol, especially beer, the favorite of teenagers. Increasing the State beer tax is another step in that process, and another step in saving teen lives.

2. Reducing Economic and Human Costs for Health and other Alcohol-Related Consequences

Alcohol problems **cost American society more than \$184 billion in 1998 in health care, criminal justice, social services, property damage, and loss of productivity expenses.** This cost represents roughly \$683 for every individual living in the United States.¹⁷

“The cost to Americans of **underage drinking totals nearly \$53 billion**, equivalent to \$200 for every man, woman and child in the United States”.¹⁸

In 2000, the estimated **cost of alcohol-related traffic crashes** to the public in the United States surpassed \$114 million.¹⁹

¹⁵ The study was based on data from 1997 and 1999 collected by the CDC and state health departments, and was published in the April 2004 issue of the [American Journal of Public Health](#).

¹⁶ See Note #5.

¹⁷ National Institute on Alcohol Abuse and Alcoholism. (2000). *10th Special Report to the U.S. Congress on Alcohol and Health*. NIH Publication No. 00-1583. Rockville, MD: U.S. Department of Health and Human Services. Chapter 6. Online: <http://www.niaaa.nih.gov/publications/10report/chap06.pdf>.

¹⁸ Levy, D.T., Miller, T.R. & Cox, K.C. (1999). *Costs of Underage Drinking*. Prepared by the Pacific Institute for Research and Evaluation in support of the Office of Juvenile Justice and Delinquency Prevention, Enforcing the Underage Drinking Laws Program. Online: <http://www.udetc.org/documents/costunderagedrinking.pdf>.

¹⁹ Taylor, D., Miller T.R. & Cox, K.C. (2002). *Impaired driving in the United States*. Fact Sheet. Prepared by the Pacific Institute for Research and Evaluation for the National Highway Traffic and Safety Administration. Online: <http://www.nhtsa.dot.gov/people/injury/alcohol/page%202.htm>.

¹⁷ Internal Revenue Service. (2003). Federal Excise Taxes Reported to or Collected by the Internal Revenue Service; Bureau of Alcohol, Tobacco, Firearms and Explosives; and Customs Service, by Type of Excise

In other words, the monetary costs of alcohol use and abuse are enormous. Do taxes on alcohol help to cover those costs, at least at the federal level?

According to the Internal Revenue Service, federal excise tax collections for alcoholic beverages totaled approximately \$8.3 billion in 2002. Put into perspective, that amounts to **about 4.5 percent of the \$184 billion in alcohol-related costs experienced by the American public.**²⁰ So, as in the State of Michigan, federal taxes on beer fall far short of covering the costs of alcohol-related deaths, health care, crime, etc. Nationally, the public pays for over 95% of the costs attributed to alcohol. (In Michigan, the public pays for 90% of these costs.)

In addition to the monetary costs are human suffering: According to research published by the *Journal of the American Medical Association*, **alcohol was the third leading cause of death in the year 2,000.** Alcohol consumption caused 85,000 deaths in the U.S. Researchers reported that that figure was conservative, considering that death among people who had stopped drinking alcohol could have been due to damage or illness from their previous alcohol use. Deaths were caused by:²¹

- alcohol-related traffic crashes
 - various types of cancers, including esophageal, liver, female breast cancer
 - stroke
 - hypertensive heart disease
 - chronic liver diseases
 - cirrhosis
- Alcohol consumption also leads other problems besides death, including:
- Fetal Alcohol Syndrome
 - violent crime
 - domestic violence, including spousal and child abuse
 - incarceration

A more recent report, published in 2004, reveals the increase in the numbers of deaths per year related to alcohol. The GHSA tells us that **current figures show that “alcohol is a factor in as many as 105,000 deaths annually** in the United States and a primary contributor to a wide array of health problems and human suffering. These include

Tax, Fiscal Years 1995-2002. SOI Bulletin, Historical Table. Excel ver. 4. Online: <http://www.irs.gov/pub/irs-soi/02ex21te.xls>. Accessed 14 August 2003.

²¹Mokdad, A.H., Marks, J.S., Stroup, D.F. & Gerberding, J.L. (2004). Actual causes of death in the United States, 2000. JAMA 291(10):1238-1245.

various **cancers, liver disease, alcoholism, brain disorders, motor vehicle crashes, violence, crime, spousal and child abuse, drownings, and suicides.**²²

The report goes on to list additional problems caused by alcohol consumption:

- riots
- high gonorrhea rates
- incidents of crime and violence
- sexual assaults and rape
- domestic violence
- low graduation rates and school failures
- traffic crashes and fatalities
- low employment productivity
- liver cirrhosis and other diseases
- alcoholism
- Fetal Alcohol Syndrome and Fetal Alcohol Effects²³

All alcoholic beverages cause harm to human beings.²⁴ However, beer is responsible for most of the harm because it is the most consumed alcoholic beverage, the favorite alcoholic beverage of underage youth, and the one most often consumed in binge amounts.²⁵

Numerous studies show that raising beer taxes will help reduce alcohol-related problems:

- gonorrhea and syphilis rates²⁶
- incidents of crime and violence, especially domestic violence, child abuse, and rapes²⁷
- beer consumption by underage youth²⁸

²² See note #5.

²³ <http://www.beersoaksamerica.org/harms.htm>

²⁴ The only positive effect of alcohol documented by research has been that in moderate amounts it thins the blood thus reducing certain kinds of heart disease. However, this effect can be achieved by using daily doses of aspirin or eating concord grapes. Also, at the same time alcohol in small amounts may thin the blood, it may also cause hemorrhagic strokes and other deadly diseases. Finally, the potential positive effect on heart disease is limited to men over the age of 45 and women over the age of 55. **Alcohol has no positive effects on younger individuals.** (Federal Department of Health and Human Services and Federal Department of Agriculture, "Dietary Guidelines.") In fact, alcohol is not even a stress reliever – it causes increased release of stress hormones, not is it a social lubricant – it actually increases social tensions and leads to various levels of social violence.

²⁵ <http://www.beersoaksamerica.org/harms.htm>.

²⁶ Chesson, H., Harrison, P. & Kassler, W.J. (2000). Sex under the influence: The effect of alcohol policy on sexually transmitted disease rates in the United States. *Journal of Law and Economics*. XLIII:215-238.

²⁷ Markowitz, S. & Grossman, M. (1998). Alcohol regulation and domestic violence towards children. *Contemporary Economic Policy*. 16(3):309-320. Grossman, M. & Markowitz, S. (2000). *Alcohol regulation and violence on college campuses*. Research report. National Bureau of Economic Research. January 2000.

- alcohol-related traffic fatalities and crashes²⁹

Increasing beer taxes could:

- provide millions of dollars for state coffers -- money that can be used for education programs, healthcare funding, substance abuse treatment and prevention programs, etc.
- increase college attendance and graduation rates³⁰

In light of all the evidence about the damage caused by alcohol, and especially by beer, it seems obvious that there is no rational justification for the 38 year hiatus on increasing taxes in Michigan.* Beer, and alcohol in general, have no beneficial effects on society.** It is time to end the special treatment and to treat beer the same way we treat cigarettes—as a product that leads to exceptional costs in both lives and money and that should be taxed at a level at least equal to the costs of the harm it does to society.

*An argument often made by the Beer Industry against raising beer taxes is that the increase will be a hardship on millions of Americans. However, the facts reveal that most beer is consumed by a relatively small group composed primarily of underage drinkers and heavy (“binge”) drinkers and alcoholics. Both of these groups need all the incentives society can provide to stop drinking and/or seek treatment. As for the rest of the population, if they follow the federal Guidelines for moderate drinking, limiting themselves to two drinks per day (for men) or one drink per day (for women), a tax increase of a few cents per can will hardly be noticed:

²⁸Chaloupka, F.J., Grossman, M. & Saffer, H. (2002). The effects of price on alcohol consumption and alcohol-related problems. *Alcohol Research & Health*. 26(1):22-34. Online: <http://www.niaaa.nih.gov/publications/arh26-1/22-34.pdf>. Cook, P.J. & Moore, M.J. (2002). The economics of alcohol abuse and alcohol-control policies. *Health Affairs*. 21(2):120-133. Grossman, M., Chaloupka, F.J., Saffer, H. & Laixuthai, A. (1994). Effects of alcohol price policy on youth: A summary of economic research. *Journal of Research on Adolescence*. 4(2):347-364. Cook, P.J. & Moore, M.J. (1993). Drinking and schooling. *Journal of Health Economics*. 12:411-429. Lockhart, S.J., Beck, K.H. & Summons, T.G. (1993). Impact of higher alcohol prices on alcohol-related attitudes and perceptions of suburban, middleclass youth. *Journal of Youth and Adolescence*. 22(4):441-454.

²⁹Ruhm, C.J. (1996). Alcohol policies and highway vehicle fatalities. *Journal of Health Economics*. 15(4):435-454.

³⁰Cook, P.J. & Moore, M.J. (1993). Drinking and schooling. *Journal of Health Economics*. 12:411-429.

Attachment

Beer Taxes on the Federal Level

The Incredible Shrinking Beer Tax (<http://www.beersoaksamerica.org>)

- The federal beer tax has been increased only once in the last five decades, 1991. Even at today's rate, \$18.00 per barrel, the tax would have to increase to \$1.15 per six-pack (from its current level of approximately \$0.33) just to offset the effects of inflation since 1951.
- In its September 2003 report, the National Academy of Sciences' Institute of Medicine recommended raising alcohol excise taxes, stating that "top priority should be given to raising beer taxes," since underage drinkers use and abuse beer more than any other type of alcoholic beverage.¹
- The federal beer tax produced more than \$3.2 billion for the federal treasury in 2002.² However, **if the tax rate had kept up with inflation since 1951, the amount of revenue collected would have exceeded \$11.1 billion.**³
- **The combined federal and average state beer excise tax rate amounts to \$0.47 per six-pack, or less than 10% of the average price of a six-pack.**
- 23 states have not raised their beer-tax rates in more than 20 years. As a result, the current **rates have eroded in value by up to 87 percent** in some states.
- Many states with low beer-tax rates are missing the opportunity to pay for much-needed state programs, such as public education, healthcare, substance abuse treatment and prevention, and others, by keeping those rates low. **Modest increases in the tax rate could raise millions in state revenue.**
- **State alcohol taxes have declined in value by an average of 46 percent in the past 20 years.**³
- Raising beer taxes will raise beer prices and moderately depress consumption, ultimately reducing alcohol-related problems ...
- **Low beer-tax rates are reflected in low beer prices and increased availability of beer to underage youth** and other price-sensitive people....

Public Opinion:

- Public opinion polls show that a large majority of adults support raising beer taxes to fund youth substance abuse treatment and prevention programs.⁴
- The American Medical Association (AMA) found that the majority of Americans (65%) prefer raising alcohol taxes to other taxes to help reduce state budget deficits. In particular, most Americans (52%) think that their state's beer tax rate should be raised, with 32% stating that the beer tax should be raised "a lot."⁵
- More than 70% of Americans want to raise beer taxes to fund the following programs:⁶
 - education and health care
 - stronger enforcement of drinking and driving laws

- treatment programs for teenagers with drinking problems
- stronger underage drinking law enforcement
- prevention programs for underage people
- state budget deficit
- treatment programs for people with drinking problems
- cutting other state taxes
- **Most Americans agree that it's fair to tax beer more than other products because of the social and health problems caused by alcohol consumption.** In addition, a majority of Americans would support raising alcohol taxes if the revenues go to specific earmarked funds.⁷

References:

1. National Research Council and Institute of Medicine (2004). *Reducing Underage Drinking: A Collective Responsibility*. Committee on Developing a Strategy to Reduce and Prevent Underage Drinking, Richard J. Bonnie and Mary Ellen O'Connell, Editors. Board on Children, Youth, and Families, Division of Behavioral and Social Sciences and Education. Washington, DC: The National Academies Press. Online: <http://www.nap.edu/books/0309089352/html/>.
2. Internal Revenue Service. (2004). Federal Excise Taxes Reported to or Collected by the Internal Revenue Service, Bureau of Alcohol, Tobacco and Firearms, and Customs Service, by Type of Excise Tax, Fiscal Years 1996-2003. Online: <http://www.irs.gov/pub/irs-soi/03ex21te.xls>.
3. U.S. Bureau of Labor Statistics.
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6. The American Medical Association. *National Survey on Alcohol and Beer Taxes*. Press Release Online: <http://www.ama-assn.org/ama/pub/article/1616-8551.html>.
7. MADD/CSPI Nationally Representative Poll conducted by Penn, Schoen, Berland & Associates, Inc. July and August 2002.