A conversation with Phil Cook on July 29th, 2014

Participants

- Phil Cook – ITT/Sanford Professor of Public Policy and Professor of Economics and Sociology, Duke University
- Alexander Berger – Senior Research Analyst, GiveWell

Note: This set of notes was compiled by GiveWell and gives an overview of the major points made by Professor Cook.

Summary

GiveWell spoke to Professor Cook as part of an Open Philanthropy Project investigation into alcohol policy in the US. The conversation focused in particular on the potential benefits of, and obstacles to, increasing federal and state alcohol taxes.

Raising the alcohol tax

Background on alcohol taxation

The federal excise tax on alcohol is about 5 cents per drink for beer and 10 cents per drink for liquor. Taxes on liquor are usually higher than taxes on beer, in part because beer has historically been perceived as the drink of moderation. Today, beer accounts for most of the alcohol consumption in the US, followed by liquor. Wine accounts for only about 15% of alcohol consumption.

The current federal alcohol tax rate was established in 1991. State alcohol taxes vary, but are generally lower than the federal tax. The real value of both state and federal taxes has been eroded by inflation, and the value of the revenue brought in by alcohol taxes has decreased more quickly than have the social costs of alcohol consumption.

Although about one-third of the US population does not drink, alcohol consumption has social costs that affect even non-drinkers (e.g., accidents, illness, lost productivity, child abuse, etc.). It is generally agreed that current federal and state alcohol taxes are too low to cover these social costs, though the exact amount of these social costs is uncertain (a variety of metrics have produced different estimates).

Potential approaches for setting the alcohol tax

A general strategy is to try to offset the estimated social cost of alcohol consumption through taxes. This could take the form of a simple flat tax per drink, or it might involve:

- Distinguishing between drinks consumed on-premise and off-premise.
- Increasing the tax per drink marginally (i.e. imposing a higher tax rate on each subsequent drink that an individual buys in a particular time period) to reflect the increasing marginal social cost of multiple drinks. This would be logistically difficult.

- Increasing the tax per drink marginally at the jurisdiction level (rather than the individual level), since the marginal social cost of consumption-per-capita tends to be higher than the average social cost (i.e. the last drinks purchased, at a population level, have disproportionately higher social costs than the first drinks). Some economists support this strategy.

There is also some support simply for a return to the higher tax rates of the 1950s or 1970s. Two states, including Alaska**,** have enacted large tax increases on alcohol in the last decade. Alex Wagner has written about the effects of these changes.

The price-sensitivity of heavy drinkers

Heavy drinkers may be more sensitive than moderate drinkers to changes in alcohol price. An increase in alcohol price is more likely to affect a heavy drinker's standard of living because alcohol takes up a larger portion of a heavy drinker's budget. (Professor Cook argues this in his book, *Paying the Tab: The Costs and Benefits of Alcohol Control*.) There is evidence that the measureable consequences of drinking (including heavy drinking), such as highway fatalities and cirrhosis, decrease when alcohol prices are raised. This evidence is clear and robust, and does not rely on evaluating the demand from heavy and moderate drinkers separately.

The majority of the tax revenue from an increased alcohol tax would come from the heaviest-drinking 10% of drinkers.

Other intervention areas

Privatization of alcohol sale and distribution

Deregulation and privatization of the supply side of the alcohol industry is currently the most active area of alcohol control policy. Since 1933, most states have used the "three-tier system." This requires alcohol manufacturers, distributors and retailers, in most cases, to remain separate entities, and also requires retailers to purchase alcohol only through distributors, who in turn purchase from manufacturers. This system is inefficient in a variety of ways. It is currently being challenged in courts and legislatures nationwide. Washington recently deregulated to allow big-box stores to purchase alcohol directly from manufacturers, rather than through distributors. The effect of such deregulation on alcohol abuse is uncertain.

18 state governments monopolize the wholesale distribution of liquor, and to varying degrees are also in the retail business (e.g., in North Carolina, liquor can only be purchased at state-run retail stores). This regulation is also being challenged in many places. An interesting case in point is Iowa, which withdrew from retail sales of wine in 1985 and liquor in 1987. The proliferation of private outlets that followed appears to have increased wine sales by 50%, but had little effect on liquor sales.

Minimum drinking age

There is generally consensus on the minimum drinking age of 21 and on how strongly to enforce underage drinking laws. Professor Cook contributed to early research showing that a minimum drinking age of 21 reduces highway fatalities. Lowering the drinking age would likely cause an increase in teen driving fatalities. The majority of the US public wants to keep the minimum drinking age at 21.

Rationing

A system for rationing alcohol at the individual level (e.g., the Bratt System used in Sweden from 1917 to 1955, in which a local village committee regulated how much alcohol each adult was allowed to purchase) is attractive in some ways, but unlikely to be implemented in the US.

Support for regulation from smaller producers

It might be advantageous for smaller, higher-priced alcohol producers (e.g., microbreweries) to lobby for tax increases in order to drive up the price of mass-produced beer and wine. Tax increases would have a bigger proportional impact on large, lower-priced producers than on small, high-priced producers, thereby helping smaller producers to stay competitive.

Political landscape

Alcohol policy is not a prominent part of the US political agenda, in part because of an overall decline in alcohol consumption in the US from about 2.8 gallons/capita in 1980 to about 2.1 gallons/capita currently. Rates of intoxicated driving have also declined sharply since the 1980s, partially due to the work of Mothers Against Drunk Driving (MADD). Highways have also become safer for a variety of other reasons. There is no coordinated political movement in favor of increasing alcohol regulation or taxes. There is very little financial support for alcohol policy work.

Professor Cook first entered the field in 1978 as part of an expert panel on alcohol control and abuse prevention appointed by the National Academy of Sciences. At that time, some public health and advocacy groups that had previously focused on treatment and alcoholism were shifting focus to prevention and control. The most active group was the Center for Science in the Public Interest, which was effective at documenting developments and disseminating new findings in the area of alcohol control.

MADD did not become involved in broader alcohol control issues. The issues MADD advocated for, especially harsh punishments for drunk drivers, had more public appeal than more abstract issues like optimal taxation.

Comparison to tobacco policy

Politically, tobacco policy and alcohol policy have been handled very differently.

Prior to the 1998 Tobacco Master Settlement Agreement (MSA), the tobacco industry claimed that higher tobaccos taxes would put a financial burden on smokers and would not reduce consumption. It was widely accepted that cigarette addicts would not respond to price changes. Many sociologists and psychologists at the time supported this view, just as the analogous view for alcohol is often stated currently.

The MSA provided Congress and state legislators with an opportunity to raise tobacco taxes without concern over tobacco companies funding their opponents in retaliation. State and federal tobacco taxes have since increased significantly. There is strong evidence that these tax increases have reduced tobacco consumption.

Nothing equivalent has happened in the case of alcohol. Although the argument that raising taxes would reduce consumption applies to alcohol as well as tobacco, it does not have the same political traction. Tax policy is driven in practice mainly by politics and revenue concerns, rather than public health arguments. Beer manufacturers and distributors are strong, well-organized opponents of tax increases and are very influential in every state. Politicians have consequently been reluctant to engage the issue.

Public opinion on tobacco and alcohol control

It is easier to make a clear, effective public case for tobacco control than for alcohol control. Only 20% of the US population smokes, and it has been widely accepted for decades that smoking, in any amount, has negative health effects. Moderate drinking, on the other hand, probably does not have negative health effects, and there is consequently a common attitude that abusive drinking is an issue separate from moderate drinking. Many consumers feel that moderate drinkers should not be penalized by taxes intended to reduce abusive drinking.

Other people to talk to

- **David Jernigan**, Director, Center on Alcohol Marketing and Youth, Johns Hopkins Bloomberg School of Public Health
- **Harold D. Holder**, Senior Research Scientist & Former Director, Prevention Research Center of the Pacific Institute for Research and Evaluation
- **Norman Giesbrecht**, Senior Scientist with the Public Health and Regulatory Policy Section in the Social, Prevention and Health Policy Research Department, Centre for Addiction and Mental Health
- **Thomas F. Babor**, Professor and Chair of Community Medicine and Health Care Department, University of Connecticut Health Center
- **Robin Room**, Professor of Alcohol Policy Research, School of Population Health, University of Melbourne
- **George Vaillant**, Professor of Psychiatry, Harvard Medical School