

Paying the Tab: Reducing the Social Costs of Alcohol Use through Policy

According to Philip J. Cook, alcohol in the United States is simply too cheap, and it's costing all of us: through addiction, lost lives, broken families, crime, violence, poor health, and wasted human potential. Although decades of efforts to reduce these costs – by cracking down on drunken driving and curbing underage drinking – have produced some effects, they've fallen short overall, in Cook's opinion. Cook, the ITT/Terry Sanford Professor of Public Policy Studies and Professor of Economics and Sociology at Duke University, declares that alcohol is our nation's No. 1 "drug" problem, and it needs to be confronted more aggressively.

The most obvious approach would be to focus on the supply side of the equation. Beer and liquor are far cheaper and more readily available today than in the 1950s and 1960s. But while federal and state excise taxes on cigarettes have risen remarkably over the past decade, real tax rates on beer, wine, and liquor have fallen dramatically during the past 50 years. Federal and state excise tax revenues on cigarettes amount to \$21.5 billion a year; for alcohol, that total is just over \$14 billion.

Now, pressed by both federal budget shortfalls and alcohol's continuing high cost to society, more than 60 prominent economists and four Nobel laureates have called on Congress to raise alcohol taxes. Among those leading the call for higher taxes is Cook, author of *Paying The Tab: The Costs and Benefits of Alcohol Control*, published in 2007 with support from a Robert Wood Johnson Foundation (RWJF) Investigator Award in Health Policy Research.

In Cook's book, he argues that policymakers remain unaware of the true cost of excess drinking, in terms both of lives lost and in dollars spent on medical and material costs. Excess drinking causes upward of 100,000 deaths per year and incurred economic costs amounting to \$185 billion in 1998, according to the National Institute on Alcohol Abuse and Alcoholism.

"The best argument is that raising the tax is an effective public health measure that will save lives and improve the health of people in a variety of ways," says Cook.

Currently, the federal alcohol tax amounts to \$18 for a barrel of beer, or about 5 cents for a standard 12-ounce drink. For a glass of wine, the tax is about 3.5 cents. The tax on liquor is about twice as much as the beer tax – still a relative pittance, according to Cook.

In comparison, tobacco taxes have risen greatly in recent years, due largely to the efforts of states and municipalities around the country. A smoker in New York City now pays three taxes on each pack: 39 cents to the federal government, \$1.50 to the state, and another \$1.50 to the city. Cook looks to those who have argued successfully for greater taxes on tobacco. He knows that taxes help cut the number of smokers; studies show a 10 percent increase in the price of cigarettes causes about a 4 percent drop in smoking. The evidence is every bit as strong that higher taxes on alcohol would reduce excess drinking and its costly consequences. Indeed, in the early 1980s, Cook pioneered the econometric methods used to analyze tax effects on both smoking and alcohol use.

But the road to increasing alcohol taxes could be rocky. The beer industry, in particular, is powerful, and, as Cook notes, "America is predominantly a beer-drinking country." More than half of the ethanol consumed by the public comes from beer, he says. He adds that the image of drinkers has not been sullied like that of people who smoke. "Smokers as a group are much more likely to be disenfranchised," he says. "They are perceived differently from people who drink. I think there is concern of political damage of going up against Anheiser Busch at the national level, and the beer distributors at every level."

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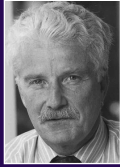
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About the Investigator

Philip J. Cook is the ITT/Terry Sanford Professor of Public Policy Studies and Professor of Economics and Sociology at Duke University. He served as director and chair of Duke's Sanford Institute of Public Policy from 1985-89, and again from 1997-99. Cook joined the Duke faculty in 1973 after earning his Ph.D. in economics from the University of California, Berkeley. He was elected to the Institute of Medicine of the National Academy of Sciences in 2001.



One strand of Cook's research concerns the prevention of alcohol-related problems through restrictions on alcohol availability. His new book on the subject is *Paying the Tab: The Costs and Benefits of Alcohol Control*, published in 2007 by Princeton University Press. Significant funding for the project came from the RWJF Investigator Awards in Health Policy Research program.

Cook also has co-authored three other books: with Jens Ludwig, *Gun Violence: The Real Costs* (Oxford University Press, 2000); with Charles Clotfelter, *Selling Hope: State Lotteries in America* (Harvard University Press, 1989); and with Robert H. Frank, *The Winner-Take-All Society* (The Free Press, 1995). *The Winner-Take-All Society* was named a "Notable Book of the Year, 1995" by *The New York Times Book Review*.

Cook's book traces the history of alcohol taxes back to 1791, when the first Congress imposed a tax on liquor. That was repealed 11 years later after protest from producers, but Congress reinstated alcohol taxes to fund the Civil War and much of the post-War federal budget. In the late 19th century, alcohol excise tax revenues accounted for over 30 percent of all federal revenues.

The Duke professor also revisits the history of Prohibition, which began in 1920, with the passage of the Eighteenth Amendment and the Volstead Act, following many years of heavy pressure on lawmakers from the temperance movement, which linked alcohol use with crime, poor health, and a host of other social ills.

The new law was highly controversial, and, despite initial support from a wide range of groups, became increasingly unpopular over the years. "The reformers and moralists, who had high hopes for national Prohibition, were disappointed," Cook writes. "It did not succeed in converting America to a nation of teetotalers. What's more, the illicit liquor trade engendered considerable corruption and violence." Prohibition ended in 1933 with the ratification of the Twenty-first Amendment, which repealed the Eighteenth.

However, Cook found that Prohibition "contributed greatly to the reduction of use and abuse of alcohol." It also gave rise to a vast underground business of selling alcohol and it deprived the national treasury of a huge funding source. Says Cook: "When the Depression set in, it pushed people to think they should legalize alcohol and restore public revenue from alcohol taxes." Following Repeal, the states each adopted new systems of alcohol control and taxation with the goal of fostering a lawful supply system and moderation by consumers.

Cook is no prohibitionist, nor is he in favor of the national drinking age set at 21. He also believes that increases in alcohol taxes would be far more effective at targeting the most dangerous subset of drinkers in America: those who drink to excess.

Cook notes that "the great majority of the American public either abstains or they drink moderately. They have nothing to fear from increased alcohol taxes, since they would pay little or nothing and they would enjoy the benefits of a safer community. It's the top 10 percent of drinkers that would be really affected by the tax. And those are precisely the people we want to reach."

Publications

Philip J. Cook has authored and co-authored many articles and publications, including the following:

- Cook PJ. *Paying the Tab: The Costs and Benefits of Alcohol Control* (Princeton University Press), 2007.
- Carpenter C and Cook PJ. Cigarette taxes and youth smoking: New evidence from national, state, and local youth risk behavior surveys. *Journal of Health Economics*, March 2008; 26 (2): 287-99.
- Cook PJ. Crime. In *Making Cities Work: Prospects and Policies for Urban America*. Robert P Inman, ed. (Princeton University Press), 2008.
- Cook PJ, Ludwig J, Venkatesh SA, and Braga AA. Underground gun markets. *The Economic Journal*, 2007; 117 (524): 588-618.
- Cook PJ and Ludwig J. The social costs of gun ownership. *Journal of Public Economics*, 2006; 90 (1-2): 379-91.
- Cook PJ, Ostermann J, and Sloan FA. Are alcohol excise taxes good for us? Short and long-term effects on mortality rates. NBER Working Paper, February 2005; 11138.

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