Testimony Before the Little Hoover Commission

Hearing on Drug Abuse Treatment

September 26, 2002

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The question of how to best achieve the Hoover Commission's goals of "efficiency, economy and improved service" as it pertains to drug and alcohol abuse treatment raises a host of issues, not the least of which is how any additional costs – if required – should be borne by California's taxpayers. Some have argued that California should spend far more money on treatment programs and they suggest that alcohol taxes should be dramatically increased and earmarked to pay for them. Yet such an approach is precisely the *opposite* of good governance:

- **Taxes on alcohol beverages are already quite large**. Consumers of alcohol beverages pay far more in taxes on beer, wine and liquor than they do for most other consumer goods. California beer drinkers, for example, pay over $800 million each year in state and federal beer taxes. A study by Standard & Poor's DRI found that when all the taxes built into the price of beer are fully accounted for, they amount to a remarkable 44 percent of the purchase price.[1] This is significantly more than is the case for other consumer goods.

- **Higher beer excise taxes hit working families the hardest** – Alcohol taxes in general, and beer taxes in particular, are highly regressive. People who enjoy drinking a beer are not the wealthy, but are typically in middle- and lower-income brackets. According to Citizens for Tax Justice and The Institute on Taxation and Economic Policy, people with a family income in the bottom 20% pay a tax burden from beer excise taxes five times greater, relative to their incomes, than people with a family income in the top 20%.[2] Further, a 2002 study from the Center on Budget and Policy Priorities shows that state tax systems became much more regressive in the 1990's.[3] Beer taxes are thus a poor revenue source because they add disproportionately to the tax burden of working families, and in these difficult economic times, that would be especially unfair.

- **Narrowly applied tax increases, like beer excise taxes, destroy economic underpinnings** – Compared to broad-based taxes, narrowly focused excise taxes cause far more economic harm. A study conducted by DRI/McGraw-Hill estimated when the federal beer tax was doubled in 1991, about 30,000 jobs were eliminated in the beer industry, along with another 30,000 jobs throughout the rest of the economy. After all of the economic aftershocks, the government only netted about 50 cents for every tax dollar paid out by consumers.[4] And a

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[1] Standard & Poor's DRI, *The tax burden on America's beer drinkers*, January 17, 2001.

[2] Citizens for Tax Justice and The Institute on Taxation and Economic Policy. *Who pays? A Distributional Analysis of the Tax System in All 50 States*. 1996.

[3] Nicholas Johnson and Daniel Tenny, *The Rising Regressivity of State Taxes*, Center on Budget and Policy Priorities, January 15, 2002.

[4] DRI/McGraw-Hill. *The macroeconomic implications of a $9 decrease in the federal beer tax*. March 8, 1996.

2002 study by the Parthenon Group and DRI-WEFA found that sales and excise tax increases are almost three times as damaging to the economy as is a personal income tax increase of the same size.[5] Again, that makes beer taxes a poor choice for raising additional revenues.

- **Earmarking taxes promotes bad governance and public cynicism** – Contrary to promoting the sense of everybody having a shared stake in the general welfare of society, earmarking promotes a divisive "who pays" and "winner takes all" climate. This breeds cynicism because it's pork-barrel politics in which a special interest group carves out guaranteed funding for itself, in perpetuity. Further, as noted in a National Conference of State Legislators report, earmarking contributes to wasteful spending by tying legislators' hands, leaving them unable to shift monies around as needs change.[6] If the entire tax system were built this way, every new idea would require raising new taxes. These and other flaws have resulted in a marked decrease in the use of earmarking by state governments in recent years. Excluding earmarks for roads and transportation, a recent study found that states have reduced earmarking from more than half of state funds in 1954, to just 14% in 1997.[7] Now is not the time to revert to such an outmoded and inefficient practice.

- **Tax fairness and equity** – As to the suggestion by some that it is "only fair" to raise alcohol taxes to fund alcohol abuse treatment, it is in fact neither fair nor logical to tax *all* drinkers because a *small minority* abuses alcohol. The vast majority of consumers drink responsibly and in moderation, causing no harm to themselves or to others (and for many, according to published studies, actually incurring health benefits). Forcing responsible consumers to pay the cost of alcohol and drug treatment programs is logically equivalent to sending out speeding tickets to all drivers because some people drive too fast and cause traffic crashes. The logic is even more questionable in light of the fact that the most frequently reported primary substance of abuse among California patients was not alcohol but illegal drugs, accounting for 73% of the state's total drug and alcohol abuse admissions.[8]

Certainly, when it comes to the problem of alcohol abuse in our society, the alcohol beverage industry has a role to play, along with parents, teachers, community organizations, law enforcement officials, the treatment community and others. In this complex cast of players, the alcohol beverage industry takes its role very seriously. Indeed, we believe that no other industry in America spends as much time, energy and resources on promoting the responsible use of its products, as detailed in the following brief appendix. But as to the question of how to fund additional drug and alcohol treatment programs, the Commission should reject higher alcohol taxes and instead look to fairer, broader-based and more economically efficient revenue options.

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[5] R. Brinner and J. Brinner, *State Revenue Prospects and Strategies*, The Parthenon Group and DRI-WEFA, January, 2002.

[6] Perex, A. and Snell, R., *Earmarking State Taxes,* third edition, National Conference of State Legislatures, 1995.

[7] Fiscal Planning Services, Inc. *Dedicated State Tax Revenues, a Fifty-State Report*, 2000.

[8] D. Rinaldo, Avisa Group, testimony to the Little Hoover Commission, citing data from the Substance Abuse and Mental Health Services Administration, Office of Applied Studies, 1999.

Appendix

Anheuser-Busch Companies
Alcohol Awareness & Education Activities in California

Every year, Anheuser-Busch and its network of beer distributors in California work with local businesses and organizations to initiate alcohol awareness activities in communities across the state. In last year alone, our California Anheuser-Busch distributors implemented the following activities to prevent drunk driving, underage drinking and other forms of alcohol abuse:

- To help stop sales to minors, Anheuser-Busch distributors distributed 37,733 copies of our *Family Talk About Drinking* program materials. These materials help parents talk with their children about making smart decisions in life, including choosing not to drink until they are of legal age. Since 1990, nearly 428,000 copies of these materials have been distributed for free to California parents.

- In addition, Anheuser-Busch beer distributors in California hosted 83 in-school presentations by individuals in the company's Consumer Awareness & Education speaker's bureau. These speakers educate and motivate young people to make smart choices and respect themselves and the law. More than 37,000 students attended these presentations last year, and more than 137,000 have attended these presentations over the last four years.

- To help prevent drunk driving, Anheuser-Busch distributors have conducted 42 designated driver programs and placed 1,744 ads encouraging the use of designated drivers. In addition, through server training programs, 1,720 bartenders, waiters, waitresses, convenience store clerks and home party hosts learned responsible serving techniques to help them prevent drunk driving and underage drinking. Our beer distributors also provided 1,484 free cab rides home from bars and restaurants.

- Our beer distributors also helped prevent alcohol abuse by placing 3,061 ads in local newspapers, stadiums, on billboards and on radio and television stations reminding adult consumers to drink responsibly. And, to promote responsible consumption by legal age college students, our distributors implemented designated driver programs on 10 campuses in California; implemented our *College Talk About Drinking* program on 6 campuses and participated in alcohol awareness and education efforts in an additional 24 colleges and universities, reaching more than 79,000 students through these efforts.

This is only a partial list of the many efforts that Anheuser-Busch and our beer distributors in California have in place to prevent all forms of alcohol abuse. Furthermore, we are committed to continuing to implement such programs because they are part of the solution to reducing alcohol abuse.