State of California
LITTLE HOOVER COMMISSION

The Case for Increased Alcohol Taxes and Fees

Should Alcohol Industry Profits from Illegal Sales to Minors Help Pay the Costs of Youth Recovery and Prevention?

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Introduction

We are pleased to offer this written testimony to the Little Hoover Commission and commend the Commission for investigating the role of alcohol taxes and fees in addressing alcohol and drug problems.

We provide our testimony on behalf of the Trauma Foundation, a nonprofit organization dedicated to the prevention of injury and violence. For the last two decades, the foundation has focused on alcohol policy as a key strategy for addressing the epidemic of alcohol-related trauma, a leading cause of death and serious injury in our state and country. Alcohol tax policy has been a major focus of our work, reflecting the research demonstrating that increasing the price of alcohol will reduce alcohol problems, particularly among young people, and provide an important source of revenue for funding alcoholism recovery programs and other health and safety programs associated with alcohol problems.

The Costs of Alcohol Problems

According to the National Institute on Alcohol Abuse and Alcoholism, alcoholism and alcohol abuse cost society $166.5 billion in 1995.[1] Seven years later, the costs are now substantially higher. The NIAAA study breaks down the costs as follows:

Lost productivity, due to either alcohol-related illness, death or crime:	$119.3 billion
Health care and medical expenditures:	$22.5 billion
Crashes, fires, criminal justice, etc.	$24.8 billion

These are probably underestimates. A recent study sponsored by the Office of Juvenile Justice and Delinquency Programs estimated that economic costs of alcohol use by young people alone amounted to $52.8 billion in 1996, mostly attributable to the cost of traffic crashes and violent crime.[2]

The NIAAA study did not estimate the costs of alcohol abuse and alcoholism to California, and we are not aware of a comparable study that focuses exclusively on our state. Since Californians account for approximately 12 percent of the nation's population, California probably bears at least 10 percent of the total cost, or $14.8 billion. This assumption is supported by the OJJDP study, which estimates California's costs of youth drinking to be $6.6 billion (12.5 percent of the national total.

Clearly, the economic costs to our state are staggering. The numbers cannot account for the cost in human suffering and pain to our state's communities, neighborhoods, and families. Alcohol problems adversely affect all Californians and tear at the fabric of our communities, culture and society.

The Alcohol Industry Profits from Illegal Alcohol Sales to Youth

Alcohol use begins at an early age, on average by the time of the early teenage years. Use increases rapidly by age and, according to the California Student Substance Use Survey, nearly one-third of high school students are "Excessive Alcohol Users."[3] This is part of a national trend. Data from the National Household Survey show that most young people do not consume alcohol at all, but those who do are likely to binge.[4] For example, 75 percent of 15- to

17- year-olds did not drink in the 30 days prior to the survey, but of those who did, 65 percent reported binge drinking (five or more drinks at a setting) at least once.[5]

How important is the youth alcohol market to the alcohol industry? One federal study conducted in 1996 estimated that the youth market amounts to $10 billion in alcohol sales, or about 10 percent of the total, a figure that the alcohol industry has not disputed.[6] The California youth alcohol market is therefore about $1 billion.

Tragically, according to an OJJDP study, more than 92 percent of youth alcohol consumption is consumed in binge drinking situations. Among 15- to 17-year-olds, eight percent report frequent binge drinking (five or more binge drinking events in the last month); these young people account for 62 percent of the alcohol consumed by their age group. Adult drinking is similarly concentrated among a relatively small group of heavy, episodic drinkers, although not to this extent. Binge drinkers are 20 percent of the population, but drink 83 percent of the alcohol.

The following picture emerges regarding the alcohol market: A relatively small percentage of heavy drinkers account for most of the alcohol industry's sales. Although most young people abstain, a relatively small percentage drinks heavily, engaging in binge drinking. These young people account for the vast majority of the $10 billion youth alcohol market. Early onset of heavy alcohol consumption is a precursor to adult heavy drinking, so today's youth market constitutes tomorrow's adult market.

Beer companies are the major benefactors of the youth alcohol market. Young people overwhelmingly report beer and coolers (mostly produced by beer companies) as their beverages of choice, reflecting the beer industry's aggressive marketing tactics targeting young people.[7]

The recent push by distilled spirits companies to reach the youth market has appropriately led to calls for both voluntary and regulatory action.

Alcohol sales are highly profitable. The major beer and distilled spirits companies report annual profits in the hundreds of millions or, in the case of Anheuser –Busch, $1 billion or more.[8] These profits are highly dependent on binge drinking, and young binge drinkers are a key part of the market.

Alcohol Excise Taxes: Current Status

Alcohol prices have dropped steadily in the last three decades due in large part to the erosion of state and federal alcohol excise taxes by inflation. A six pack of many brands of beer now costs about the same as a six pack of Coca Cola. This situation was unheard 25 years ago, when beer was twice as expensive as soft drinks.[9]

State taxes have been hit particularly hard by inflation, and California taxes are no exception. Its beer excise tax rate of $.20/gallon falls roughly in the mean among states but far below the New Mexico ($.41/gallon) or North Carolina ($.53/gallon) tax rate. The California distilled spirits tax rate of $3.30/gallon is also set at approximately the mean, although again much lower than many states. The California wine tax ($.20/gallon) is tied with Texas as the third lowest in the nation. Only Louisiana ($.11/gallon) and New York ($.19/gallon) are lower.[10]

The revenue from California alcohol excise taxes ($288 million in 2001)[11] does not begin to offset the costs of alcohol sales. For every alcohol excise tax dollar collected by California there are $51 in costs. Examining just the youth market, for every excise tax dollar collected by California stemming from a youth alcohol sale there are approximately $230 in costs.

In this era of budget shortfalls, many states are now considering an increase in their alcohol excise tax rates, both to offset deficits and to fund alcohol treatment and prevention programs. According to the Anheuser-Busch Company, it helped defeat beer tax bills in 11 states.[12] A coalition of health and safety groups championed a substantial increase in Alaska's excise tax rate. Although the revenues were not specifically dedicated to treatment and prevention programs, proponents anticipate that the increase will at least forestall program cuts due to a large budget deficit.[13] Puerto Rico also enacted a substantial tax increase, and Tennessee is considering an increase with funds dedicated in part to school-based alcohol education programs.[14]

Increased Alcohol Taxes Will Reduce Alcohol Problems, Particularly Among Youth

Not only will a tax or fee increase provide funding to offset the costs of alcohol problems and fund programs in danger of deep budget cuts, the increases themselves will reduce alcohol problems. The link between excise taxes, higher prices, reduced consumption, and few problems is now well established in the research literature.[15]

These connections are particularly important in reducing youth drinking and drinking problems. For example, one study estimated that if the federal excise tax had been increased by $.84/six pack (the amount necessary to offset inflation between 1951 and 1990), heavy drinking among high school seniors would have dropped by 19 percent and binge drinking by 6.5 percent.[16] Another study predicted that a similar increase would save more than 2,000 lives each year because of the resulting decrease in alcohol-related motor vehicle crashes.[17] Other studies link higher beer taxes to reductions in rates of youth violence and violence by adults against children.[18] A recent study predicts that a 10 percent increase in the federal beer excise tax would reduce the incidence of severe domestic violence by 2.3 percent.[19]

Alcohol Taxes and Fees: California Should Take Action

The costs of alcohol are high; alcohol taxes are low; binge drinking accounts for most alcohol sales; illegal sales to youth are critical to the market; the beer industry in particular is reaping such huge profits in the face of these human and economic costs; and increasing alcohol taxes and fees will help prevent youth alcohol problems. In these circumstances, should California consider raising its alcohol excise tax and imposing a special “clean-up” fee on the industry? Absolutely.

Americans overwhelmingly support increases in alcohol excise taxes if they are dedicated to addressing the costs of alcohol problems.[20] The only reason that the public’s support for increasing alcohol excise taxes is not translated into legislation is the opposition of the powerful alcohol lobby, which has defeated every alcohol excise tax increase proposal in California save one during the last three decades. Despite many efforts, those interested in the health and safety of California’s children have not been able to overcome this potent political force in California.

The exception came in 1991, following a hotly contested alcohol tax initiative. In 1990, a coalition of health and safety groups decided, after the state legislature failed to enact an alcohol tax increase, to place an initiative on the ballot to increase alcohol taxes by a nickel a drink, dedicating the funds to a variety of health and safety programs. It was defeated only after the alcohol industry spent nearly $40 million in a successful effort to confuse voters regarding the initiative. Part of the industry’s strategy was to propose a counter initiative that would have increased the alcohol tax by approximately a penny a drink. When voters defeated both measures (along with almost all the initiatives proposed that year in the state’s most confusing ballot in history), the legislature decided to enact the industry’s penny a drink proposal anyway. Commentators attribute the defeat to the complicated ballot, which turned off voters. Polls showed the nickel a drink proposal ahead into the final ten days of the election.

The defeat of the initiative provides many lessons for us today. First, increasing alcohol taxes is possible – if the ballot had not been so complicated, the initiative probably would have passed despite the alcohol industry's efforts. Despite its defeat, the initiative indirectly led to the legislature enacting a substantial increase in alcohol excise taxes. Second, success requires a broad-based coalition that is well-organized and well-funded. Third, the alcohol industry will spend lavishly to defeat any tax proposal. Fourth, enacting legislation to increase alcohol taxes is unlikely in the California legislature because of the opposition of the alcohol lobby combined with the need for a two-thirds majority vote for any tax increase.

A "Clean-up" Fee on Beer and Distilled Spirits Producers to Fund Youth Recovery and Prevention

In light of these barriers, the Trauma Foundation, in collaboration with the recently-formed California Alcohol Policy Reform Initiative (CAPRI) has proposed legislation to impose a fee on beer and distilled spirits makers, with fees collected dedicated to youth recovery and prevention centers in communities throughout the state. The key advantage of this approach is that legislation imposing a fee requires only a majority vote (rather than a two-thirds majority) in the legislature. It also does not require organizing an expensive, statewide initiative campaign.

The concept of an alcohol fee is based on California legislation that imposed a similar fee on paint producers, with revenues generated dedicated to lead abatement programs. The California Supreme Court upheld the legislation as a fee and not a tax in a case entitled *Sinclair Paint v. Board of Equalization*.[21] According to the Court, to be a fee, the funds generated must be specifically dedicated to addressing costs associated with the product being assessed, in that case, the environmental damage caused by lead in paint.

To translate the fee concept to alcohol products, CAPRI's proposal includes:

1. Assessing a $100 million fee on beer and distilled spirits manufacturers;

2. Imposing the fee based on each company's share of the youth alcohol market (resulting in the highest proportion of the fee being assessed to the three major brewers);

3. Determining the market share by conducting an annual survey of youth drinking habits and product preferences; and

4. Dedicating all of the funds specifically to youth recovery and prevention services.

The proposal therefore targets only the "unwanted profits" of the alcohol industry – those generated from illegal sales to minors and focuses attention on the need for youth services. We believe that a vast majority of Californians will support such legislation, providing a foundation for building a strong statewide coalition for alcohol policy reform.

Thank you again for permitting us to address the Commission, and we look forward to participating in the Commission's deliberations.

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