



# Tax is a blunt, ineffective instrument to reduce alcohol related harm

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# Why tax alcohol from a health perspective?

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- **Basic premise is that tax rises will lower consumption thus reduce alcohol-related harm**
- **How consumers respond to price changes depends on the price elasticity of each good.**
- **Total alcohol is around -0.5**
- **Spirits more responsive to price changes than beer and wine.**
- **On-trade more 'elastic' than off-trade**

# But tax is a fiscal instrument, not a health instrument

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- Alcohol tax has long been a dependable source of revenue for many countries
- Conflict from a revenue *and* health perspective
- For revenue you want consumption to go up, for health you want consumption to go down.
- Dual objective is in a sense inherently contradictory
- The use of tax to reduce alcohol-related harm is undermined by several complicating factors
- These factors mean that high taxes do not necessary reduce harm.

# Why is tax a blunt instrument?

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- **Tax objective is to reduce the aggregate volume of alcohol consumption**
- **Motivated by the Ledermann hypothesis**
- **“Society’s alcohol problems are directly related to average levels of consumption”**
- **Tax policy is trying to make moderate drinkers even more moderate so to reduce the probability of transition to heavy drinking**
- **The health benefits of moderate drinking more than offset by reducing the number of heavy drinkers?**
- **But relationship is incorrectly interpreted that average consumption causally determines heavy drinking prevalence**

# What does the academic literature suggest?

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- **Average elasticities do not distinguish between:**
  - Heavy and moderate drinkers / high and low income drinkers
- **The literature is clear in showing that PED vary across:**
  - Alcohol type, distribution outlet, countries, income band
  - Duty-paid PED > Overall alcohol PED => Price increases will shift consumers to illicit market
- **Crucially, PED is shown to vary across different population groups**
  - PED for moderate drinkers is more than twice as high compared to heavy drinkers
  - So heavy drinkers are less responsive to price changes

***Concern with equating aggregate consumption with harm***

# What does the evidence suggest?

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- **Alcohol availability, taxes and prices, per capita consumption levels and alcohol-related harms appear to be relatively unrelated to each other, or at best weakly correlated**
- **High excise duty rates countries have relatively high episodes of binge drinking – UK, Finland, Norway, Ireland**
- **Countries with lower rates show the opposite relationship – Italy, Bulgaria, Luxembourg**
- **Tax decrease in Nordic countries did not lead to increases in alcohol-related harm**
  - **Affordability and availability increased**
  - **Per capital consumption broadly unchanged**

# **Why is there such a weak relationship with tax and harm?**

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- **Heaviest drinkers are least responsive to price changes**
- **Less well-off maintain alcohol intake:**
  - **Switch to cheaper drinks in the same category**
  - **Switch to a different drink category**
  - **Purchase from lower tax jurisdictions**
  - **Turn to the unregulated market (illicit, unregulated)**
  - **Surrogate alcohol**
- **Moderate drinkers likely to reduce consumption – lower tax revenue once supply-chain impacts are considered**
- **Reduced health benefits from moderate drinking**

# What about earmarking alcohol taxes?

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- Use excise revenue to fund cost of alcohol-related harm
- Alliance between ‘taxers’ (MOF) and ‘spenders’ (MOH)
- But far from a win-win situation
- Short-term political push, but no longer-term rationale
  - Revenue infinitely small to what pay.
  - Is spending on alcohol-related harm always more socially beneficial than any other possible expenditure (or tax reduction)?
  - Simply replace general budgetary funding (so illusory)

# Summary

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- **High excise taxes appear unrelated to abusive drinking and are not necessarily preventing heavy episodic drinking event.**
- **Further tax rises will have a marginal effect at best, and hurt low-income responsible drinkers at worst.**
- **Sharp tax rises boost the illicit and unregulated market, which lowers revenue and increases health risks.**

***Tax is a blunt, ineffective instrument to reduce alcohol-related harm***

# Thank you