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The Catastrophe of What Passes for Alcohol Policy Analysis

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INTRODUCTION

Is alcohol a good like other economic goods, or is alcohol a "catastrophe" that should be heavily taxed? In two recently published studies—"The Cost of Alcohol in California," published in *Alcoholism: Clinical and Experimental Research,* and "The Annual Catastrophe of Alcohol in California," published by the Marin Institute—Simon Rosen, Ted Miller and Michelle Simon claim that moderate-to-high alcohol consumption costs the state of California $38.4 billion per year, or roughly $1,000 for each of the state's residents. According to these authors the major annual costs associated with alcohol are illness ($18.2 billion), traffic ($8.4 billion), crime ($7.8 billion) and injury ($4.0 billion), which means in total "the annual cost of alcohol problems in California is higher than the cost of the Loma Prieta earthquake, the Oakland fires, and the southern CA fires of 2003 combined."

As a policy conclusion, Rosen, Miller and Simon claim that increasing taxes on alcohol would be equivalent to charging drinkers the costs they impose on society. They argue that California should increase taxes on every drink: they say that beer taxes should be increased from 2 cents to 27 cents per glass, wine taxes should be increased from 1 cent to 26 cents per glass, and liquor taxes should be increased from 4 cents to 30 cents per glass. And they appear to have the ear of politicians including California Governor Arnold Schwarzenegger, who is advocating increasing alcohol taxes to reduce the budget deficit. Their studies and policy prescriptions are also explicitly endorsed by prominent public officials in California, including California State Senator Mark Ridley-Thomas (D-Los Angeles) and Jonathan E. Fielding, Public Health Officer and Director of the County of Los Angeles Public Health Department.[1]

Despite the popularity of Rosen, Miller and Simon's research among politicians, any amount of economic investigation into their research methods shows their conclusions are dubious at best. As the adage goes, "Garbage in, garbage out." Their research is neither solid nor reliable, and their recommendations do not follow from their analysis. And I'll make Rosen, Miller and Simon a deal: I won't attack their research on the grounds that they are employed by groups with an anti-alcohol agenda, if they don't attack mine on the grounds that this study is being published by vocal skeptics of neo-prohibitionism. I will stick to the facts and methodology, and to the logic of their conclusions. In addition to distracting from the underlying problems associated with problem drinking, population-level approaches like tax increases also harm the vast majority of adults who consume alcohol responsibly. It punishes them for the excesses of the minority of problem drinkers, and it also discourages moderate drinking habits that a wide and diverse body of public health research shows can reap enormous health benefits.

CONFUSING INTERNAL AND EXTERNAL COSTS

Rosen, Miller and Simon's two studies' shortcomings are numerous, and fatal on a number of levels. But the first and most critical flaw in their logic is that even if one were to accept the questionable findings the two studies present about the social costs of alcohol, little of these costs are actually borne by state and local government. That is, even if we could devise a plan to eliminate all problem drinking in a week, there would be little or no financial benefit to government. This is a critical point for public policy leaders to understand, and one that gets lost in the authors' dire estimates. Even using the authors' own data, actual out-of-pocket expenses accruing to government as the result of problem drinking amount to just 14 percent of overall estimated costs.

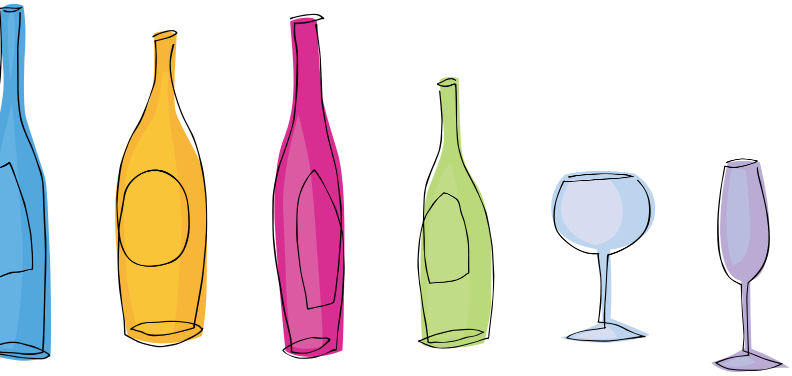
Put another way, some \$33.1 billion of the \$38.1 billion of Rosen, Miller, and Simon's estimate are costs incurred by abusive drinkers themselves—costs such as losses in wages and work product, or injuries sustained from drunk driving or other activities related to abusive drinking. These are not costs imposed on society as commonly understood by economists.

Take "lost wages," for example. If society is truly worse off because an abusive drinker allegedly earns less, we should also castigate everyone else who opts for a lower-paying job when they could have taken one with more compensation. By the authors' logic, any teacher, police officer, artist or college professor who could make more money by taking a job that is less rewarding but more lucrative, say as a stockbroker or lawyer, is imposing "social costs" due to the "lost wages" they've incurred by their personal decision to take a lower-paying job. The same could be said of small business owners who knowingly incur the risk and lower earnings associated with entrepreneurship when they could easily take a more secure, better compensated job with a large, established corporation. Retiring early? By the logic of Rosen, Miller and Simon you should not be allowed—the salary an early retiree gives up impose "social costs" on the state.

These are all clearly internal costs. We continuously make lifestyle decisions that influence our current and future earning potential. If an alcohol abuser's income is negatively affected by his consumption habits, it's he who bears the cost—not the state government, not the local government and not society at large. To the extent that his employer may bear some costs of his excessive drinking, that too is a result of his employer's decision to hire him and to maintain him as an employee.

Rosen, Miller and Simon also claim alcohol effects significant "social costs" by increasing traffic accidents. It's certainly true that when a drunk driver causes death or injury to another driver, passenger or pedestrian, he's causing clear and devastating external costs. But Rosen, Miller and Simon once again err in including clear internal costs in their analysis.

According to National Highway Transportation Safety Administration 83 percent of the people killed in alcohol impaired driving accidents are either the legally drunk drivers themselves or their inebriated passengers.[2] These are not innocent bystanders—they chose to drive drunk or to ride with a drunk driver. While every preventable death is of course tragic, a drunk driver who causes his own death is, in and of itself, not a cost imposed on society, but on himself. The social costs of drunk driving accidents must be confined to the harm imposed on innocent parties and the cost of emergency response in such accidents, etc.



LEAVING OUT THE BENEFITS IN A "COST-BENEFIT" ANALYSIS

There is a more fundamental problem with Rosen, Miller and Simon's analysis though. They build into their analysis what has long been an article of faith among the self-appointed "alcohol watchdog" groups—that problem drinkers suffer lower wages and lost work product. Unfortunately for them, that conventional wisdom has been undermined by new research.

Rosen, Miller and Simon base their conclusions about lost wages on a 1998 study from Harvard University—a study that was itself based on even earlier work.[3] They seem to have overlooked a much more recent analysis published in the *Journal of Labor Economics* and sponsored by the National Institute for Addiction and Alcohol abuse. That study found that drinking actually increased the benefits derived from both education and experience.[4] The author (Jeremy Bray) found that while heavy drinking (six or more drinks on three or more occasions in the previous six months) somewhat reduced these positive returns, the benefit to moderate drinkers more than made up the difference. Bray's study concludes that "Based on these results, alcohol use does not appear to adversely affect returns to education or work experience and therefore has no negative effect on the efficiency of education or experience in forming human capital."

Bray theorizes that it's the social aspects of moderate alcohol consumption (call it the "social lubricant effect") that help improve the efficiency of the formation of human capital. Because investing in human capital—be it through education or work experience—is partly a social activity, and because of alcohol's tendency to aide in social interaction, moderate alcohol consumption on the whole provides a boost to productivity. Moreover, Bray notes emerging evidence that moderate drinking may also improve cognitive function—yet another benefit to the formation of human capital.

Critics may point out that Bray's study didn't include an analysis of truly alcohol-dependent drinkers. But even here, other research strongly undermines Rosen, Miller and Simon's conclusions. A 2001 study by Feng, et al., for example, used a screening device to look exclusively at problem drinkers.[5] Their conclusion? Even problem drinking "is not negatively related to the labour supply." They also found that "estimates of the costs of problem drinking may be overstated owing to misleading labour supply relationships." That seems to be a pretty direct repudiation of the very methodology used by Rosen, Miller and Simon.

Anyone acquainted with what some may call a "functional alcoholic" may not be surprised by this research. While such drinkers may have some internalized personal costs, they are often high achievers. The typical alcoholic is not a denizen of skid row.

Another problem with Rosen, Miller and Simon's analyses is the authors' broad definition of "harmful drinking." Their definition of "high alcohol consumption" seems to vary depending on what alleged cost they're computing, but it generally ranges from 3 to 4.4 drinks or more per day for men and 1.5 to 3 drinks per day for women. But should a drink at lunch, a glass of wine after dinner, and a nightcap before bed really be the starting point for an analysis of "problem drinking?"

The data from researchers without the clear anti-alcohol bent of Rosen, Miller and Simon suggests not. In fact, a vast body of research has pretty conclusively determined that there are health benefits to drinking well past the point at which Rosen, Miller and Simon say the deleterious effects of "harmful" drinking begin to set in.

One widely cited meta-analysis of 51 different studies, for example, looked at both the benefits and harm associated with different levels of alcohol consumption.[6] That study associated the lowest risk of death with men who consume two drinks per day. And while those benefits began to decline with the third drink, the third, fourth, and even fifth daily drink still provided benefits. The "break-even" point didn't come until the sixth drink—a point considerably higher than the three-drink cutoff defined by Rosen, Miller and Simon.

My own research with Bethany Peters finds that drinkers earn 10-14 percent more than otherwise equivalent non-drinkers.[7] We find that men who go to bars earn an additional 7 percent, making the drinking and barhopping bonus 17 percent more than an otherwise equivalent non-drinker who stays home. The hypothesis is that social drinkers have bigger social networks so they are likely to find better jobs or perform better on the job. Anyone who is in sales can verify this. Yet Rosen, Miller and Simon completely ignore any potential social benefits of drinking in addition to ignoring the benefits of drinking for its consumption value alone.

A true cost-benefit analysis should by definition consider both costs and benefits. It is telling that Rosen, Miller and Simon focus only on costs. California policymakers should not rely on such "data" in formulating alcohol policy. A blanket tax increase on alcohol could very well discourage moderate drinkers, depriving them of the clear, well-documented health benefits associated with moderate consumption.

FLAWED RESEARCH AND FLAWED PRESCRIPTIONS

In addition to the shortcomings in Rosen, Miller and Simon's data and their analysis of it, their remedy is shortsighted, too. Even assuming the alleged "social costs" of alcohol consumption are real, raising taxes to offset those costs is a bad idea, for a number of reasons.

First, the research indicates that while higher taxes do have a negative effect on consumption, that effect tends to be on moderate and light drinkers, not on heavy drinkers—the drinkers who impose nearly all of alcohol's external costs. As noted above, in this sense, high taxes on alcohol actually cause harm, in that they discourage drinking among the cohorts where the research shows such drinking yields very real and measurable benefits.

Second, research also indicates that higher taxes have only a limited effect on preventing underage drinking, another harm alleged by Rosen, Miller and Simon. While it's true that like all consumers underage drinkers are sensitive to price, research shows that even a draconian 100 percent increase in alcohol taxes would have no effect on 85 percent of minors who consume. Once again, such a draconian increase in alcohol taxes would have a more significant effect on light and moderate of-age drinkers, the very people for whom drinking is associated with some significant health and earnings benefits.

Third, these blanket, population-level approaches to tackling alleged social costs unfairly punish the vast majority of responsible drinkers for the sins of the small percentage of problem drinkers. Raising taxes on alcohol to prevent problem drinking is akin to raising the price of gasoline to prevent people from speeding. Worse, such policies ultimately fail, because it's the responsible consumers who tend to change their habits as a result of them. The people actually causing the harm tend to be unaffected.

Finally, the tax strategy relies on the assumption that with enough social planning, we can eliminate alcohol abuse. One would think such an approach would have been thoroughly and terminally repudiated by America's failed experiment in alcohol prohibition—the ultimate "population level" anti-alcohol strategy. While alcohol prohibition did reduce alcohol consumption (consumption of beer decreased, although consumption of hard alcohol went up), the nationwide ban on alcohol caused numerous social problems. Alcohol prohibition was repealed in 1933, and has been judged by most commentators (including the Women's Temperance Movement) to be a resounding failure.

This is not to say, however, that no problem drinking exists. Problem drinking has been a consistent and predictable problem for as long as humans have had alcohol. New research suggests that we've always had a base level of problem drinkers, a group that seems to be resistant to population-level public policy, be it high taxes or outright prohibition.

One recent study supported by the National Institute on Alcohol Abuse and Alcoholism actually suggests that in the latter half of the 20th century—a period during which population-level controls on alcohol have actually declined—Americans have trended toward more favorable habits in the way they consume alcohol.[8] The one exception was young adults between the ages of 18-20, a group that has seen an increase in binge drinking. But that group is precisely the key one under its own alcohol prohibition, so they break the law by drinking at all, they too often drink to excess. Society considers them adults in nearly every other

capacity, so prohibition theory tells us these binge drinking problems among young adults are entirely predictable. Just as prohibition did in the early 20th century, this ban on alcohol fosters irresponsible behavior among the people subjected to it.

In the face of all of this research, then, it's odd that Simon, Rosen and Miller continue to prescribe population-level tax increases to fight questionable external social costs imposed by a small set of problem drinkers. Their strategy of is that of someone more interested in promoting a general decrease in alcohol consumption across the entire population—a temperance position—than of someone truly interested in mitigating externalities associated with the actual abuse of alcohol.

Unfortunately, this misguided focus on the availability of alcohol may be distracting people from more supportable factors contributing to alcohol abuse. For example, a 2004 study conducted with the Center for Disease Control of 500,000 Kaiser Permanente members in the San Diego area found that adverse childhood experiences (ACEs) such as sexual abuse, missing parents, physical abuse, drug abusing parents and other incidents are highly correlated with substance abuse (including alcohol abuse, tobacco use, drug abuse and obesity).[9] The study found that only 3 percent of adults who never had an ACE were alcoholics. That number doubled among adults with one ACE. It rose to 10 percent among those with two and to 16 percent among those with four or more. The authors write that "a more than 500 percent increase in adult alcoholism is related in a strong, graded manner to adverse childhood experience."

The Kaiser study is consistent with a wealth of other early childhood development research published in *Pediatrics*. According to a 2008 study by Zuker, et al:

> *[M]uch of the causal structure underlying youthful alcohol use and abuse is not specific to alcohol and in particular is either directly or indirectly the result of the development of externalizing and internalizing behaviors. Family history of antisocial behavior, childhood mistreatment, and other negative life experiences are well established precursors of later alcohol problems and alcohol use disorders (AUDs). These predictors are non-specific risks of alcohol involvement, problems of undercontrolled or dysregulated behavior such as conduct problems, impulsivity, attention problems, aggressiveness, antisocial personality disorder and depressive spectrum disorders.*[10]

Put another way, problems associated with later alcohol abuse start early in life and are symptomatic of other problems. These issues will not go away with higher taxes. By focusing on controls at the population level, organizations like the Marin Institute and the Pacific Institute for Research and Evaluation do problem drinkers a disservice. Their mass punishment approach distracts from the underlying causes of alcohol abuse and neglects to address abusers with more individualized (and thus, more likely to be successful) methods of addressing and fixing destructive behavior.

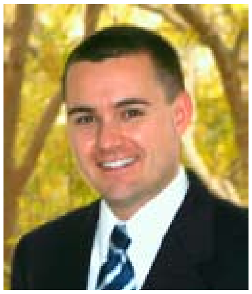
CONCLUSION

Rosen, Miller and Simon's two studies rest on the dishonest premise that costs borne entirely by individuals should be factored into calculations of "social costs" for the purpose of formulating public policy. They then compound that error not only by ignoring new research suggesting that even their computation of these internal social costs is exaggerated, but also by neglecting to factor the well-documented benefits of light-to-moderate drinking into their calculations.

They then rely on those calculations to recommend misguided, population-level policies, most notably an increase in alcohol taxes. Such policies are worse than ineffective; they're actually harmful. They punish responsible drinkers for the limited, mostly internalized problems caused by the small subset of problem drinkers. They distract policymakers from the real underlying problems more directly associated with problem drinking. And they not only do little to dissuade problem drinkers, they actually do have a mitigating effect on the consumption of responsible drinkers, a group that stands to lose the myriad health benefits conclusively associated with the moderate consumption of alcohol.

Although Rosen, Miller and Simon's research appears scientific, careful analysis shows that it is little more than a poorly supported effort to promote a prohibitionist agenda.

ABOUT THE AUTHOR



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