

Taxation to reduce alcohol use argument



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THE ECONOMIC ARGUMENT FOR AND AGAINST THE USE OF TAXATION TO REDUCE THE USE OF ALCOHOL

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ARGUMENT FOR ENFORCING TAXES ON ALCOHOL PRODUCTS

Benjamin Franklin was once quoted saying “ In this life only two things are definite: Death and taxes”. So a drunkard is assuring himself that he is contributing to tax revenues, while trying to reach his death hurriedly compared to if he is sober. But then again, a lot of people consider alcohol as the anaesthesia in which they can endure the pain of the operations of their mere existence. So the question is whether it is virtuous and ethical to tax this vice, which is also serving as a balm to some of life’s aches.

Excise taxes are indirect or ancillary taxes on the purchase or consumption of a product, and in this case, alcohol. This kind of tax is often shouldered by the people who use alcohol. A tax which is based on the presence of alcohol in a product is an excise tax. Excise tax is usually a fixed rate tax expressed as a monetary amount per measure of the product. This means that the higher the amount of alcohol in a product, the higher is the excise tax. Therefore it follows that whisky and vodka will have higher excise taxes

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compared to wine or beer. The purpose of excise tax is either to increase the proceeds of a country or to deter people from buying the product and transform the consumption pattern of its citizen (ICAP, 2006).

New Zealand is a country who prides itself of its Accident Compensation Corporation or ACC. Any accident to the citizen or resident or (and in some cases even tourists) of the country be it in school at home or at work will be paid for by ACC which is subsidized by the government. That is why the price of alcohol do not only stop at the price of the bottle or the contents thereof. It just starts there. Lower prices of alcohol will result to increase incidence of intoxication and even if the country will lower the legal limits for allowable blood alcohol level of drivers, the nuisance that alcohol consumption brings do not end with drunk driving. Intoxication can result to fist fights and more accidents. This therefore means more expenses for ACC to cover.

Another point is the diseases that can result from drinking alcoholic beverages. New Zealand citizen and its residents get free medical treatment for any form of diseases. In this case, liver cirrhosis is a disease that can result from prolonged and too much alcohol consumption. This again means, additional expense for the government.

Excessive alcohol drinking has been well known to have negative effects in the human body. In a study funded by a project grant from the Alcohol Advisory Council (ALAC) of New Zealand (2005), there were approximately 1040 deaths attributed to alcohol consumption in the year 2000 in New Zealand. Furthermore, alcohol use disorder was seen as the largest single reason of loss of DALYs (Disability Adjusted Life Years) in the country in the

same year. However, in the same study, it was estimated that about 980 deaths were prevented by alcohol. (Connor, Broad, Jackson, Vander Hoorn, & Rehm, 2005)

While some contend that alcohol has its benefits, the need to control alcohol use must start from the government. It is unrealistic and undesirable, especially to alcohol users and alcohol companies alike, to completely eliminate alcohol consumption. The high prevalence of death, diseases and disability caused by alcohol use calls for government policies minimizing the availability of alcohol to the market. One contention for this is through taxation, alcohol will not be readily available to the public.

In the Law of Demand, where consumption is inversely proportional to the price of the said product, increasing therefore of the price of alcohol would lessen the demand for it in the market. This in effect would lessen the negative properties brought about by alcohol to the health and safety of the population (Connor, Broad, Jackson, Vander Hoorn, & Rehm, 2005.)

Taxing alcohol will substantiate the repercussions of alcohol products on public health. This will make the consumers pay for the side effects of alcohol, be it social or medical. Studies have shown that the requirement for alcohol can be decreased with an escalation in its price. (Richupan, 2005)

A study done in Sweden entitled: “Alcohol Tax in Sweden, should it be reduced?” (Eriksson and Fotina, 2010) has noted that in Sweden, there is a high tax and low consumption per capita. The study states that since alcohol is not fundamental for the existence of man then consumption of alcohol should be considered a luxury and those who consume it should pay higher

taxes. Another point stated was that, an increase in utilization of alcohol will increase the demand for public goods such as medical treatment, police and social services, as such, the individual who uses alcohol is just paying in advance for his or her probable use of such services. (Eriksson and Fotina, 2010)

Unsafe drinking is prevalent all over New Zealand. The proportion of alcohol consumed in heavier drinking occasions (defined as eight or more standard drinks for men and six or more for women) increased from 42 per cent in 1995 to 50 percent in 2000 (Habgood et al. 2001). Statistics from the past decade in New Zealand confirm that there is a worrying trend for young drinkers to be drinking more heavily (Kalafatelis et al. 2003). Estimates of the annual cost of alcohol-related harm to New Zealand society vary from \$1.4 to \$4 billion (Devlin et al. 1996) and, taking into account full social and economic costs, up to as much as \$16 billion (Easton, 1997).

Per capita consumption, a Government health indicator, which was declining from a peak in the early 1980s, has been increasing again since 1998 (Statistics NZ, 2004). Greater physical and economic availability, increasingly pervasive and sophisticated marketing and a global youth culture trend towards heavy drinking from a younger age are likely to have combined to push up consumption.

Alcohol is taxed according to either its ethanol content within a range or by beverage volume. (Alcohol Healthwatch, 2009). There is a reason why tax is set this way, mostly it would make the manufactures develop products at the highest end to gain the best tax advantage. For example: An alcohol with a

content of between 9-14 % are taxed at 10 %. These rates are adjusted for inflation annually. In New Zealand, alcohol's tax excise rate is moderate at 10% (*24%) of the retail price for beer, 15% (*25%) for wine, and 38% (*50%) for spirits.

Most alcohol tax goes into the government's consolidated fund (from where it can be used for any government initiative).. A small separate levy on alcohol goes to the Alcohol Advisory Council (\$12. 7 million in 08/09 year). The link between price and consumption is strong. Taxation is the most direct way of influencing the price of alcoholic beverages.

Evidence strongly supports the use of excise tax as an effective strategy to reduce alcohol related harm. Studies have consistently shown that:

“ when other factors remain unchanged, an increase in price has generally led to a decrease in alcohol consumption, and that a decrease in price has generally led to an increase in alcohol consumption.” (Alcohol Healthwatch, 2009).

So what we can expect from an improved alcohol taxation and pricing policy?

This will reduced consumption of alcohol by teenagers and moderate to heavy drinkers. This will also decrease additional drinking in a sessions and help to stop moderate drinkers becoming heavy and chronic drinkers, thus reducing the burden on health and other services. Eventually this will result in abatement of alcohol-related harms including; deaths, injuries, cirrhosis, cancer and other diseases as well as crime, child abuse, educational failures, sexually transmitted infections, interpersonal violence and suicide.

Furthermore an increased tax revenue can be directed to reducing alcohol-

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related harm through increased enforcement, health promotion and community action, research and treatment.

THE ECONOMIC ARGUMENT AGAINST THE USE OF TAXATION

Robert Heilein, an American writer once said, and we quote: “ Be wary of strong drink. It can make you shoot tax collectors and miss.” And there is Verni Robert Quillen an American journalist who wrote that one difference between taxes and death is that death do not get worse every time the legislature meet.

Taxes are charges that the government would put on certain commodities, services, and goods for people to pay. These are used by the government to fund different types of programs and projects for the country. Base on Anglo info, the Global Expat Network New Zealand, taxes come in many forms. They are the Property Tax, Income Tax, Resident Withholding Tax, Road User Charges, Gift Duty Tax, and the Goods and Services Tax. Alcohol products are one of those goods that are highly taxed in this country. An Excise Tax is taken from all alcohol beverages that are imported and manufactured in New Zealand. According to Alcohol Health Watch, alcohol is taxed based on its ethanol content or by the volume of the beverage. The country’s alcohol tax excise rate is at 10% of the retail price for beer, 15% for wine, and 38% for spirits. These taxes goes to the consolidated funds of the government. So having had taxes placed on alcohol products over the years really does help reduce the use of alcohol in this country? Let me get you through my argument on this.

Alcohol consumers come in different age groups, races, and economic status. Be it rich or poor, there would really be those people that would opt to drinking anyway, regardless of the cost it may take them to buy it. There are a lot of factors that would cause a person to drink beer. For instance, there is the influence of the society nowadays, bars are everywhere, a lot of young ones would go out and party with their friends, and even those professionals would have their own take of chill-out times after their work especially over the weekends. Basically, in every special occasion, get-together, and party, it would never be complete without the bottles of beer or glass of wine on the sides. You see, putting tax on these alcohol beverages doesn't really help people to stop drinking for more often than not, you drink based on your emotions. When you're at a party with your friends, the atmosphere calls for happy-fun vibes so people drink. When you're having problems, some would find ease and comfort in drinking alcohol too. In whatever occasions there may be, beers are often on the specialty menus.

So who's to say that tax indeed help in reducing alcohol consumption among people? The way we see it, putting tax on alcoholic drinks may just seem to help cut people's consumption of it but the truth is, taxes on alcohol are made to increase government revenues without actually improving public health. In fact, as reported by Liz MacPherson, a government statistician in New Zealand, production of the total volume of alcoholic beverages still increased to 1.9%, to 466 million liters. Hence if the government is concern of the welfare and health of its society then they should have regulated the production of alcohol in the market and implemented supply control

measures . While we may all think that the government only promotes a healthier society through the taxes they put on people's vices such as cigarettes and alcohol in particular thinking that it would lessen the consumption of the drinkers, then we may be missing out on some things . Yes it does lessen and change the behaviour a little but only those of the moderate drinkers and not of the heavy users who could really benefit a lot from the change of behaviour. An alcoholic for once is unlikely to decrease consumption because of the rise on its price. And in this society, who do you think could suffer the most? It's the low income people, the poor ones who could be greatly affected of this tax than those who have higher incomes. This only makes the poor, poorer. Do they really have to pay the alcohol taxes for the beers they get to consume too? There is also no economic justification on the fact that the cost are only burdened on the individuals consuming it, not the public. Contrary to what the society is implying that imposing these taxes on alcoholic drinks is the so-called " social cost" of this vice, isn't it more of a " personal cost" on part of the individual consumer instead? As they are the ones and not the public who experience decrease in their years of life, emotional distress, and personal expenditures spent on these products. It could only raise up inequality without even discouraging heavy drinking. This clearly depicts personal discrimination on the part of the alcohol drinkers. Not everyone is drinking beer, and those who are drinking, those who are not likely to live long are somewhat force to pay for the increasing costs of the ageing population. This is because the cost of chronic diseases that of old age could be more expensive than the deadly diseases caused by alcoholism. And lastly, come to think of it, since taxes increase the cost of alcohol products, those who cannot afford it would resort to buying

from the cheaper ones like those that are smuggled and illegal, thus encouraging the rise of black markets. So to sum it all up, there is no direct effect of alcohol taxes in reducing the alcohol consumption of the people, rather it opened a lot of questions instead on what it really does imply to the society and its people.

Drinking alcohol is indeed dangerous to one's health but only when consumed heavily. So instead of the government imposing tax on alcoholic products, they should just focus on campaign drives in reducing the use of alcohol and take on their time in giving better health promotions and education especially to the younger ones. It is only through how well you get to educate people on taking care of their own health that you could help stop them from drinking too much alcohol and live on a healthy lifestyle.

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