# Bingeing, collatoral damage and the benefits and costs of taxing alcohol rationally

## Researcher

Marsden Jacob Associates (MJA)

## Summary

Marsden Jacob Associates (MJA) was commissioned by the Foundation for Alcohol Research and Education (FARE) to prepare a benefit cost analysis (BCA) of alcohol taxation reform. The BCA undertaken and reported here, *inter alia*, extends the preliminary analysis presented by the review of Australia’s Future Tax System (the Henry Tax Review) and examines the impacts of relevant reform scenarios on alcohol related harms, consumer satisfaction and welfare, and government tax and revenues.

Factors driving this first Australian analysis of the benefits and costs of alcohol taxation and pricing reforms include: the accumulating evidence on the role of alcohol consumption and associated behaviours in harms to individual drinkers and others in the community; community concerns over the costs imposed by drinkers on others; wider recognition that the current structure of alcohol taxation in Australia is anomalous; and the international evidence that alcohol taxation and pricing is an effective and pervasive instrument in reducing alcohol consumption and alcohol induced harms.

For this study, we have focussed the quantitative analysis on one component only, i.e., on estimating the net benefits from reducing the costs of harms to others (HTO). A key reason for this focus is that these costs are unequivocally externalities to the individual’s decision to drink. The economic framework provided by the BCA is rigorous and comprehensive and is required by governments in Australia for major policy and regulatory reform initiatives. Despite this, a BCA has not previously been publicly applied in Australia to evaluate options for alcohol taxation and policy.

Currently, in Australia wine is taxed on its wholesale value through the Wine Equalisation Tax (WET) while other alcoholic beverages incur an excise based on alcohol content. To explore the benefits and costs of the WET and alcohol taxation reform, MJA developed a benefit cost simulation model.

## Outcomes

Overarching results from the MJA alcohol BCA model include that broadening and increasing Australia’s volumetric excises on alcohol would increase the price of alcohol, reduce binge drinking and reduce the cost of HTO and yield major benefits for Australia at relatively small costs, i.e., there would be significant net benefit for the Australian community as a whole.

Moderate drinkers (almost two-thirds of the adult population) are clearly beneficiaries of the modelled alcohol taxation reforms. Their loss of satisfaction which results from higher prices and reduced consumption of alcohol, is more than offset by:

* significant cost savings from reduced level of harms caused by the binge drinking of others. Moderate drinkers account for the largest portion of the benefits of reduced harms to others; and
* increased disposable income. Moderate drinkers are major beneficiaries from any reasonable method of rebating the increased alcohol excise revenue back to taxpayers or the community.

These two sources of benefit swamp the estimated costs (i.e., the costs of implementation and the loss of enjoyment from reduced consumption of alcohol).

The BCA also found that non-drinkers are unequivocally beneficiaries from reduced HTO and rebates for taxpayers.

The MJA alcohol model examined several policy experiments, including:

* Policy Experiment 1: the WET is removed and replaced with a volumetric excise set at $29.05 per litre of alcohol. All other excise rates are unchanged; and
* Policy Experiment 2: the WET is removed and replaced with a volumetric excise set at $29.05 per litre of alcohol. Excise rates on alcoholic beverages other than wine are increased by 50 per cent.

The results of the analysis of these options are resoundingly positive:

* Experiment 1 results in a net public benefit of $230 million per annum, comprising $330 million per annum in reduced HTO and net loss of consumer surplus (or consumer enjoyment) of $100 million per annum; and
* Experiment 2 results in a net public benefit of $250 million per annum, comprising $820 million per annum in reduced HTO and net loss of consumer surplus (or consumer enjoyment) of $570 million per annum.

## Recommendations

Alcohol taxation reform offers major benefits in terms of reducing the harms from alcohol and major additional efficiency benefits to the Australian economy. These benefits individually and collectively overwhelmingly offset the costs of implementation and loss of satisfaction.

The vast majority of taxpayers would benefit by the savings generated by the reduction in harms to drinkers funded and subsidised by Non-drinkers and Moderate drinkers.

The collective set of findings from this study has relevance beyond Australia. Although calibrated to Australia, our analytical framework, modelling and simulations on bingeing and HTO suggest that the similar qualitative findings will apply in the United Kingdom and other economies with similar drinking patterns and strong bingeing cultures among drinkers.

[view the report](/wp-content/uploads/FINAL-MJA-Report-Bingeing-Collateral-Damage-and-Taxation-2012.pdf)