

# Historical and cross-cultural changes in taxation of different alcoholic beverages

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The Centre for Alcohol Policy Research (CAPR) is a world-class alcohol policy research institute, led by Professor Robin Room. The Centre, which receives funding from the Foundation for Alcohol Research and Education (FARE) and the University of Melbourne, examines alcohol-related harms and the effectiveness of alcohol-related policies.

CAPR not only contributes to policy discussions in Australia but also contributes to international studies of significance for the World Health Organization. An example of its international work is the [GENACIS project](#), which examines gender alcohol and culture in more than 40 countries.

The Centre has also undertaken a pioneering study, [The range and magnitude of alcohol's harm to others](#), that is the cost of alcohol-related harms on people other than the drinker, otherwise referred to as third party harms. Results from the study were also included in the World Health Organization's [Global Status Report on Alcohol and Health 2011](#), and WHO is using the study as a model for such studies globally.

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## Summary

### Australian history of excise taxes on beer and spirits

In Australia in 2012 the excise tax on spirits (on a per litre of alcohol basis) was more than double the excise tax on the most commonly consumed beer: full strength (not draught). Since the Commonwealth of Australia (the Australian Government) assumed responsibility for taxes (including excise tax) in 1901, this has not always been the case. For large parts of the twentieth century, that is, between 1921 and 1988, the excise tax on spirits has been close to the excise tax on beer, even being lower from the 1930s to the 1970s. Large increases or decreases in the beer excise tax have been responsible for the changes in this relationship, rather than major changes in the spirits excise tax.

In 1902 the beer excise tax had been set very low for historical reasons grounded in the earliest excise tax levels in the Colony of Victoria and its need to be lower than the customs tax at that time for industry protection reasons. Over the next 20 years the beer excise tax increased markedly, probably because of the need to raise revenue, particularly as spirits consumption declined by more than half.

In 1984 differential taxes according to the strength of the beer were introduced for public health reasons (primarily to tackle road mortality). In 1988 the excise taxes on all beer were markedly reduced, leading to spirits being taxed much more heavily than beer for the first time since 1921. Commentary on beer excise often focuses on the reduction in excise on low strength beer in 1984 and overlooks that the excise on all beer went down in 1988. Explanations for this include both public health concerns as well as political expediency to moderate the effect on the Consumer Price Index (CPI).

In 2001, at the time of the introduction of the GST, political expediency was also a factor in reducing the excise tax on 'ordinary beer'. Since that time the excise tax on mid strength draught beer has been kept very low. However the market share of full strength (not draught) beer is 28 times higher, that is, it is the highest taxed beer that is most consumed.

From a public health advocacy perspective, this review of beer and spirits excise taxes demonstrates that setting alcohol excise taxes in Australia has historically been a balancing exercise between industry protection, revenue raising, public health concerns and political expediency. Australia had a long history of not taxing spirits more heavily than beer until the late 1980s. Even when excise was used to attempt to shift consumption patterns, for example within the beer market, there has been limited success as by far the largest market share, at over 80 per cent, is for the most heavily taxed full strength beer.

### Cross-cultural history of excise taxes on beer, wine and spirits

In 2012 the tax per litre of alcohol was higher for spirits than for beer or wine not only in Australia but across a range of developed economies, and beer seemed to be taxed on average a little bit more than wine, as previously observed by Österberg (2004). As discussed above, Australia is the only country in this study for which data have been sourced to show that for long periods in the twentieth century, the beer and spirits excise taxes were similar.

Wine is taxed lightly in wine-producing countries (Australia, France and, to a lesser extent, the United States of America) because of the political power of many small producers. Historical reasons for favouring wine, such as self-interest of the rich (who drank wine and set the taxes), or belief in the health-giving properties of wine, do not explain the tax outcome as consistently as the lobbying power of small producers.

Spirits have long been associated with social disorder and adverse public health, for example, during the gin craze in the eighteenth century in the United Kingdom (UK), American attitudes to whiskey starting in the late eighteenth century, and the adverse impacts of spirits drinking in Norway and rum drinking in Australia in the early nineteenth century.

Taxes on spirits have been used to try and alter consumption patterns, for example in the UK to try and switch consumption from gin to beer. Early attempts by Americans to do the same were unsuccessful because of post-Revolutionary sentiments which deemed taxes to be an infringement on the ordinary man's freedom to drink whiskey.

However excise has limitations in promoting consumption patterns. The shift in consumption in wine-producing countries such as France and Italy away from the 'Mediterranean' drinking pattern towards a more 'globalised' drinking pattern demonstrates that other forces are more powerful than excise taxes. The taxation history of spirits had a minor diversion in the 2000s when ready-to-drink spirits-based beverages (RTDs or alcopops) were taxed at a much lower rate than spirits. This led to a dramatic increase in spirits consumption especially by teenagers or, more specifically, teenage girls. This resulted in dedicated tax changes to change this anomaly, for example in Norway in 2003-2004 and in Australia in 2008, with a resulting drop in consumption.

A wide range of taxation policy tools were employed beyond excise, for example Prohibition in the US in 1919, and the imposition of greater controls on the availability of spirits after Repeal in 1933. But when excise was employed, the industrialised nature of spirits production made it amenable to imposing higher excise taxes.

Excise as a revenue raising measure is never more evident than when required to fund wars. For example, the first short-lived attempt in the US in 1792 to pay off debts from the Revolution, then the more successful introduction of excise taxes to fund the Civil War, the rises in beer excise in the UK to fund the Napoleonic Wars, and steep rises in beer excise in Australia and the UK to fund World War II.

In addition to the findings in the previous section, the cross-cultural comparison of differential excise tax on the different alcoholic beverages reveals that wine taxes are set low in wine producing countries, primarily because of the political power of small producers and the more industrialised nature of spirits and beer production which means there are fewer political constraints on taxing them. There is a widespread use of excise taxes on spirits to try and influence consumption patterns to counter social disorder and adverse public health, although there are limitations on its effectiveness. The use of excise taxes to influence consumption cannot be seen in isolation from other policy measures such as prohibition or controlling availability. Excise has a long history of being used primarily for revenue raising, especially in times of war, and this has had a major impact on beer excise taxes at specific periods in history.

## Introduction

Most countries tax the domestic consumption of alcoholic beverages but in all cases the tax rates vary widely between beverages (Anderson, 2010a). For example, in Australia commercially produced beer is taxed at eight different rates, brandy is taxed lower than other spirits, and wine is taxed through a separate tax, based on its value rather than its alcohol content (Attorney-General's Department, 2009:431). In most countries, the tax per litre of alcohol is higher for spirits than for beer or wine, and, at least in the developed economies, beer seems to be taxed, on average, a little bit more than wine (Österberg, 2004:208-09).

Both economists and public health representatives have called for alcoholic beverages to be taxed on the basis of alcohol content, thereby eliminating such anomalies (Byrnes et al., 2010; Lloyd, 2010; Webb, 2010). However because beer and wine are more expensive beverages to produce than spirits based on their alcohol content, equal tax rates per litre of alcohol would mean that ethyl alcohol would be cheaper in spirits than in wine or beer (Österberg, 2004:209). In their submission to Australia's Henry Tax Review in 2009, a consortium of public health bodies argued that although there was great merit in taxing on the basis of alcohol content (the 'alcohol is alcohol' approach), they also included a caveat for the highest alcohol products, such as spirits, based on the potential for specific harms. For this reason a differentiated or category based volumetric tax rate was preferred (AERF et al, 2008:26-27).

Although these arguments for changes to the taxation of alcoholic beverages are made on economic rationality and evidence-based public health grounds, what is missing from the debate is the influence that historical experience in particular cultures may be playing. There are numerous studies that relate the history of alcohol in Australia (Fitzgerald & Jordan, 2009; Kirkby, 2006; Room, 1988). Some alcohol histories concentrate specifically on consumption patterns (Dingle, 1980; Powell, 1988), whereas others cover alcohol policy generally (Lewis, 1992). Aspects of alcohol policy such as deregulation (Room, 2010), alcohol taxation policy in specific states (Wilkinson, 1997), or alcohol taxation in limited recent historical periods (James, 1996).

Internationally, the literature is replete with histories of alcohol which cover taxation (Gerritsen, 2000; Lubkin, 1997; Prestwich, 1988; Rorabaugh, 1979). Others concentrate on alcohol policy (Horverak, 2012; Nicholls, 2009), Prohibition (Blocker, 1988; Levine, 1985), or alcohol taxation in limited historical periods (Conroy, 2006; Giesbrecht et al., 2004; Powers, 2006). Cultural specificity in alcohol policies has been the focus of numerous reports (Room et al., 2011; WHO Regional Office for Europe, 2012).

However what is lacking is any long-term historical analysis of alcohol excise taxation in Australia, and the role that the historical and cultural context in diverse developed economies (including Australia) plays in the current excise taxation of different alcoholic beverages. This report aims to address these deficiencies to facilitate a more informed debate about future excise taxation on alcoholic beverages.

# Part 1 – Australian history of excise taxes on beer and spirits<sup>2</sup>

## Methods

The Australian experience of excise taxation on alcoholic beverages – spirits and beer – was examined in greater detail using primary data sourced from national excise taxation schedules from 1901 until the present day (2012). Because there has never been a wine excise tax in Australia, except very briefly in the 1970s, this study focused on spirits and beer.

The decision to focus on excise taxes was based on their greater significance to tax revenue than import taxes since Federation of the colonies into the Commonwealth of Australia in 1901 (Reinhardt & Steel, 2006), and their greater significance than the state-imposed liquor licence fees. An indication of the relative insignificance of licence fees compared to excise taxes was presented in a 1958 Western Australia Enquiry which noted that the excise was nearly 34 times higher than the licence fee contribution to the cost of a glass of beer (Parliamentary Committee in Western Australia, 1958:20).

The excise taxes were sourced from *Excise Tariff Acts* and *Excise Tariff Validation Acts*. Whereas the Excise Tariff Schedules in the former were sourced by referring to the original Acts, the schedules embedded in the latter had to be obtained by referring to the relevant *Votes and Proceedings* of the House of Representatives (HoR).

The ratio of excise taxes on spirits to beer was calculated on the basis of cost per unit of volume of pure alcohol. The reason for selecting ratios was to make comparisons of the taxation treatment comparable across time and place. As spirits taxation was initially assessed as an amount per proof gallon (i.e. based on alcohol content), the calculation was simply one of dividing the tax by 0.57. The tax on beer was given on the basis of cost per gallon of the beverage as consumed, and an assumption about the alcoholic content of beer had to be made. Full strength beer was selected for the comparison because it still represents over 80 per cent of the beer consumed in Australia in 2010, and 64 per cent was non-draught full strength beer (Australian Taxation Office, 2008-09). A figure of four per cent alcohol by volume (ABV) was selected, based on the figure mentioned in a House of Representatives speech on 6 February 1902, and also as assumed by Anderson (2010a:219). The ratio of excise taxes of spirits to beer was calculated for the cheapest spirits, which were usually brandy, and the most expensive beer. The reason for selecting these figures was to examine whether spirits and beer taxes were ever close, or whether they had always favoured beer, as in 2012. Interpretation of this data used primary sources such as Hansard<sup>3</sup> speeches and Australian Government reports, and secondary sources provided by historians.

## Beer and spirits excise taxes in Australia from 1902 to 2012

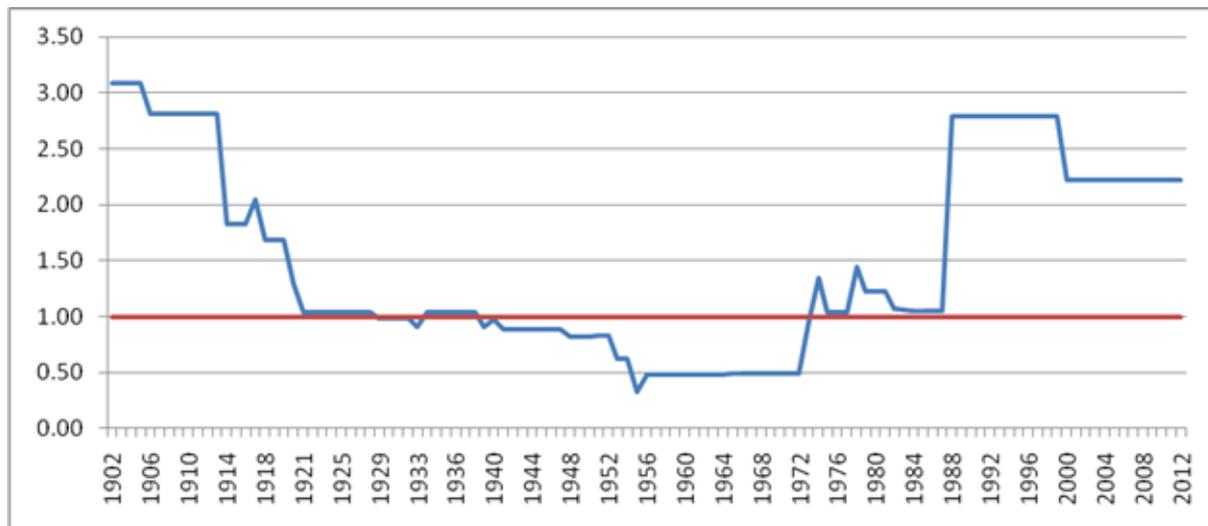
Figure 1 demonstrates the ratio of excise taxes on brandy (the spirits attracting the lowest tax) and four per cent ABV non-draught beer (the most commonly consumed and the most highly taxed beer).

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<sup>2</sup> The first part of this report draws on material also drawn in: Manton, E. (2014). The diverse drivers of relative changes in excise taxes on beer and spirits in Australia, 1902-2012. *Drugs: Education, Prevention and Policy*, 21(3), 197-204.

<sup>3</sup> Hansard is a continuous transcript of all parliamentary debates, although the verbatim transcripts have been corrected and edited in Hansard for minor slips and repetitions.

**Figure 1: Ratio of excise taxes on brandy to four per cent ABV beer tax in Australia from 1902 to 2012.**



During the period from 1902 to 1921 the excise tax ratio of spirits to beer declined from slightly over three to around one. From 1921 until 1988 it stayed near 1.0, although that included periods around 0.48 in the 1950s and 1960s to 1.44 in 1978, before experiencing a massive jump in 1988 to 2.8. It is these two periods of marked change – 1902 to 1921 and 1988 – which are subject to closer analysis below. If the exercise were repeated for whisky rather than brandy, the ratios are slightly higher, but the shape of the graph is unchanged and the conclusions are unaffected.

## Rationales for major changes to beer and spirits excise taxes in Australia

### 1902-1921

The first excise tax on beer was imposed in the Colony of Victoria in 1880 at 2d per gallon of beer.<sup>4</sup> Even while the primary reason for imposing the tax was for raising revenue, the Governor was bound to set excise taxes lower than customs duties, consistent with the desire to protect local industries. The excise tax on beer was set at 2d compared to 9d for the customs tax.

Debate in 1902 shortly after Federation, as recorded in Hansard when the first *Excise Tariff Act 1902* was being debated, was clear about the primary, but not sole, function of excise taxes being to raise revenue:

*The main reason for the imposition of excise duties is to provide revenue, but very frequently they are affected by considerations of national policy, such as the expediency of encouraging native industries, or the preservation of the health, or the improvement of the habits of the people (House of Representatives (HoR), 6 February 1902).*

The initial excise taxes in Australia in 1902 were clearly influenced by the Victorian excise taxes and were also set at 2d for “ale, porter, and other beer containing not less than 2% of proof spirit and brewed from barley malt and hops exclusively” and 3d for beer “not elsewhere included” (these two levels of rates had become very close by 1914 and had converged by 1918).

<sup>4</sup> ‘d’ refers to penny(ies) or pence, and ‘s’ refers to shilling in the currency in Australia at the time.

A revenue problem was arising in that the consumption of spirits per head halved over the period from 1901 to 1920 (ABS Year Books). Many factors contributed to the decline of spirits, such as the restriction of imports owing to the difficulties of transport and high freights, increased prices, and earlier closing of hotels, as well as the departure of large numbers of men for war service abroad (NSW Bureau of Statistics, 1916:963-4). By comparison, beer consumption was not as affected by the war and consumption held fairly steady, being about 20 per cent higher in 1920 than in 1902. The revenue lost from reduced spirits consumption was recouped by progressively increasing the excise tax on beer.

The scope for increasing the tax revenue from beer was also made easier because the initial excise tax on beer was so low. During the period from 1902 to 1921 the excise tax on the most expensive beer increased by seven (by over ten on the cheapest beer), whereas the excise tax on spirits only increased by 2.4 over the same period. By 1921 the ratio of the cheapest spirit (brandy) to the most expensive beer in terms of pure alcohol had fallen from three to close to parity.

## 1988

The large jump in the ratio of spirits to beer excise taxes in 1988 (see Figure 1) resulted from a policy change in the levels of beer excise rather than any sudden change to the spirits excise. The excise tax on spirits continued to be smoothly adjusted every six months according to the CPI change, as it had been since this automatic adjustment mechanism was introduced in 1983 (James, 1996). By contrast there was a step change in the beer excise after 1988.

A potential reason for this change had its origins in emerging concerns about the over-consumption of alcohol coming from groups concerned with health in the late 1970s. In 1977 the Australian Senate's Standing Committee on Social Welfare concluded that "alcohol is the major drug of abuse in Australia" (Senate Standing Committee on Social Welfare, 1977:25). In evidence submitted to this Committee, it was clear that low alcohol beers had not gained any market foothold and that only with taxes favouring low alcohol beer could this hope to be changed. To address this, the Committee recommended that "the excise imposed on beers of a low alcohol content (defined as not more than 2.5 per cent by weight) be 30% less than that on other beers" (Senate Standing Committee on Social Welfare, 1977:46). It was not perceived that this would solve all the problems, but merely it would be a step in the right direction, particularly to reduce road mortality:

*The already heavy drinker will not switch to a low-alcohol beer, but it may well find acceptance among younger and newer drinkers, whose intake of alcohol would thus be reduced. Since such a beer could appeal mainly to 'social' drinkers, it may well be that the social drinker who drives will thus reduce his chances of causing a road crash (Senate Standing Committee on Social Welfare, 1977:45).*

This recommendation was finally accepted in the 1984 Budget.

In 1988 there was a change in beer excise arrangements such that the taxation was on the basis of the volume of alcohol (matching the excise tax system for spirits). It was only in 1988 in Australia that beer began to be taxed significantly less than spirits, for the first time since the beginning of the century.

One interpretation of the reason for reducing beer excise by such a large amount was to encourage the consumption of low alcohol beverages, such as beer, against higher alcohol beverages such as spirits (James, 1996). However Lewis (1992:181) had a different interpretation, claiming that when beer and spirits taxes were increased in the 1987 Budget and the retail prices of beers increased, many drinkers turned to wine casks. The subsequent reduction in beer prices in 1988 had more to do with turning drinkers back from cheap wine to beer. Spirits prices were not reduced and this led to the

divergence between beer and spirits excise duties. Whichever of these explanations is valid, they both had as their basis the use of excise tax to effect a change in consumption behaviour towards a perceived less harmful beverage, that is, it was public health considerations that were dominant.

However, a second explanation lay in the effect that including beer in the Consumer Price Index (CPI) had on beer taxation. By this explanation, the tax on full strength beer was reduced because of a desire to reduce the CPI for “non-health political and economic reasons” (Lewis, 1992:181).<sup>5</sup> The Opposition labelled this a vote-winning move:

*This legislation reduces the excise on beer. This is to give effect to the Government's promise in the August 1988 Budget. Believe it or not, that will cost the Government a massive \$730m. The Government always hides behind the fact that there is no money. It can find \$730m to try to buy votes from the beer drinkers of this country...*

In contrast, the Labor Government framed the excise change in terms of public health:

*The objective of the change to the excise duty on beer was to target it better to discourage, or alternatively recoup the social costs of, excessive alcohol consumption (HoR, 23 May 1989).*

In this scenario, political expediency was the dominant driver. This was not the last time that political expediency played a major role in setting beer excise rates. According to a 2005 industry discussion paper charged with reviewing the *Excise Tariff Act*, mid strength draught beer since 2001 was taxed at a much lower rate than any other beer as a result of statements by the Prime Minister in the 1999 election campaign that the price of ‘ordinary beer’ would not rise by more than 1.9 per cent upon the introduction of the Goods and Services Tax of ten per cent (Attorney-General's Department, 2005:15). Thus political expediency was a far greater driver for introducing a low tax on ‘ordinary beer’ than any other factor at that time. What this political expediency also points to is the cultural centrality of ‘ordinary beer’ in the Australian experience in the twentieth and even into the twenty-first century.

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<sup>5</sup> This concern for the effect of an alcohol tax on the CPI had also been a factor in keeping the price of wine low in Norway as wine had been included in the retail price index in the post World War II period (Horverak, 2012).

## Part 2 – Cross-cultural history of excise taxes on beer, wine and spirits

### Methods

While the first study looked in detail at the historical development of differential excise taxes on beer and spirits in Australia, the second study draws on relevant literature to explore the role that the historical and cultural context in diverse developed economies (including Australia) plays in the current excise taxation of different alcoholic beverages.

The study examined five countries, all developed economies, to examine what impact having a strong cultural preference for a particular beverage, and what influence the long-term history of alcoholic beverage consumption practices had on the alcoholic beverage excise taxation regime. The five countries selected represented a range of cultural preferences: the US and Norway as predominantly ‘beer and spirits drinking’ countries; Australia and the UK as predominantly ‘beer drinking’ countries; and France as a predominantly ‘wine drinking’ country. Developed economies were chosen because they all had the institutional arrangements necessary to implement excise taxation collection over a long period of time. Because there has never been a wine excise tax in Australia, except very briefly in the 1970s, and wine is taxed through the Wine Equalisation Tax, an equivalent ‘revenue neutral wine tax’ was used.

### Differential taxation by type of beverage for five developed economies

Table 1 summarises the alcoholic beverage excise tax ratios of spirits to beer, spirits to wine, and beer to wine on the basis of volume of pure alcohol in five countries in 2012.

**Table 1: Alcoholic beverage excise tax ratios in Australia, UK, US, Norway, and France in 2012.**<sup>1</sup>

	Australia	UK	US	Norway	France
Spirits/beer excise tax per unit of alcohol 2012	2.2	1.4	1.9	1.5	6.0
Spirits/wine excise tax per unit of alcohol 2012	5.2 <sup>2</sup>	1.2	3.0	1.5	50.0
Beer/wine excise tax per unit of alcohol 2012	2.3 <sup>2</sup>	0.9	1.6	1.0	8.3

Sources: (Australian Taxation Office, 2012; European Spirits Organisation, 2012; United States Alcohol and Tobacco Tax and Trade Bureau, 2012).

<sup>1</sup> VAT and additional taxes in France and Norway and GST in Australia not included. US figures are based on federal excise taxes and do not include state taxes.

<sup>2</sup> Based on a \$13.03 per litre of pure alcohol effective wine excise in a revenue neutral scenario to account for Wine Equalisation Tax where there is no excise tax (The Allen Consulting Group, 2011:16). The figure is for 2011 rather than 2012.

In 2012 in Australia, France, and to a lesser extent the US – all wine producing countries – wine is taxed lower than beer or spirits. The ratio of beer to wine tax in these countries is not as high as the spirits to wine ratio but is still considerable in France at 8.3. The tax ratio of beer to wine is not nearly as high in Norway and the UK, which are not wine producing countries. In these countries, wine is taxed similarly to or even a little higher than beer, and slightly less than spirits.<sup>6</sup>

Spirits are taxed more heavily than beer in all countries, especially in France where spirits are taxed six times more heavily. Otherwise the spirits to beer tax ratio ranges from 1.4 to 2.2. Australia is the only country in this study for which data have been sourced to show that for long periods in the twentieth century, the beer and spirits excise taxes were similar, as was previously demonstrated in Figure 1 and discussed in Part 1.

These figures confirm Österberg's (2004) previously mentioned observation that the tax per litre of alcohol is higher for spirits than for beer or wine, and, at least in the developed economies, beer seems to be taxed, on average, a little bit more than wine. The next section will explore some of the historical and cross-cultural reasons why this might be so.

## Historical and cross-cultural background of differential alcoholic beverage excise taxes

### Why is wine taxed so lightly?

#### *Self-interest of the upper classes*

Two hundred years ago in, for example, post-Revolutionary US, early colonial Australia and Norway, wine was reserved for the upper class. It could be argued that the self-interest of those who set the taxes would best be met by keeping wine taxes low. For example, in 1792 in the US an excise tax was introduced on spirits but not on wine. However in post-Revolutionary US, notions of fairness and equity had a strong influence on policy and the tax on whiskey was seen as unfair as it favoured the rich who drank Madeira over the poor who drank whiskey. The tax was short-lived and was rescinded in 1802 (Rorabaugh, 1979:52-56).

There is a perception in France that wine has always been the drink of the workers, but closer examination reveals that in the 1850s wine and brandy were a luxury reserved for special occasions (Prestwich, 1988:6). It was not until later that century that wine became a daily habit in France, and in the 1890s wine was beginning to be referred to as a right of workers (Prestwich, 1988:23). Thus the conclusion that self-interest of the upper classes is responsible for low wine taxes cannot be consistently drawn.

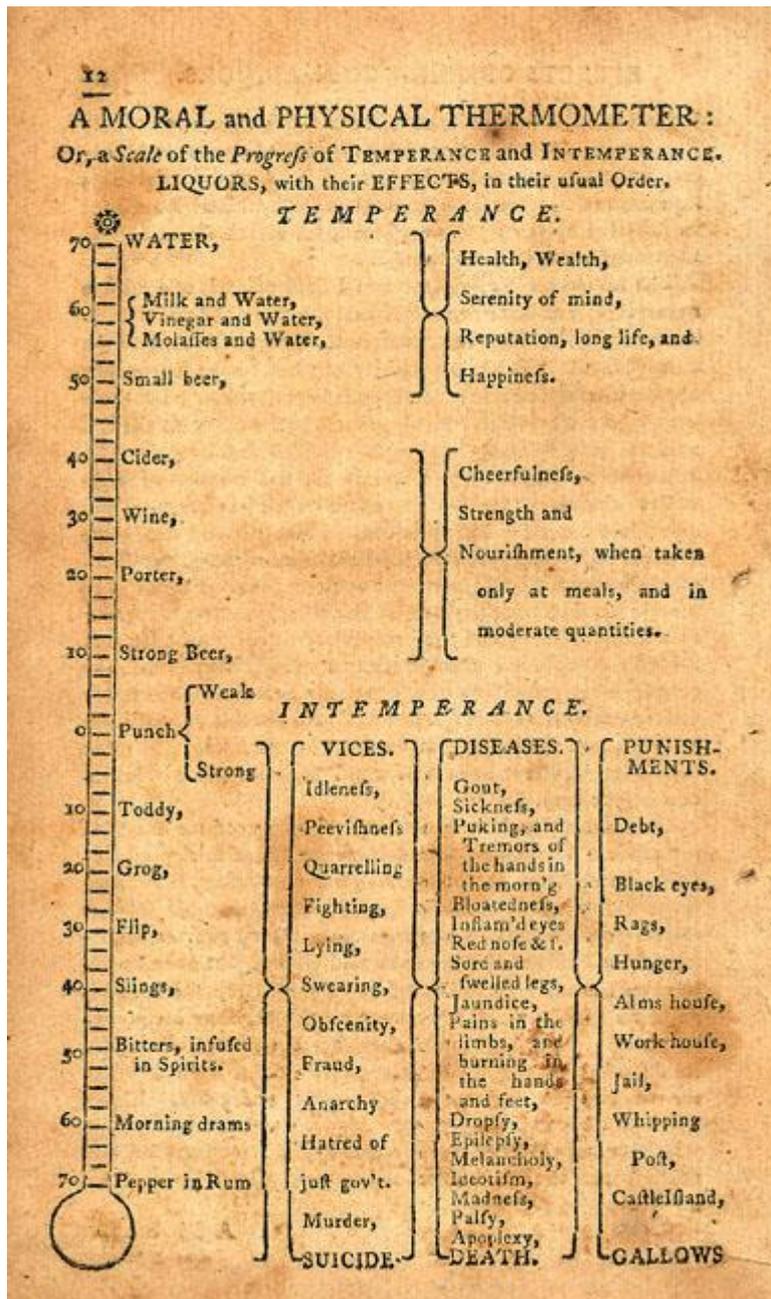
#### *Wine as a healthful drink*

It was also felt in France in the 1890s that taxes on wine would be unjust because then everyone would have to drink water, which was not a "healthful drink" (Prestwich, 1988:24). This aspect of wine as a healthy drink has a long and enduring history. In 1785 in the US, Dr Benjamin Rush published his moral thermometer (see Figure 2), in which wine was judged to provide "cheerfulness, strength and nourishment, when taken only at meals, and in moderate quantities".

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<sup>6</sup> In EU-member countries which do not produce much wine (such as the UK) complaints under the EU single-market rules can force wine taxes to be no higher than beer taxes per unit of pure alcohol (Österberg & Karlsson, 2002:51).

Figure 2: Rush's moral and physical thermometer (Rush, 1790).



In the US in the 1830s-60s, despite findings that Madeira included more than 20 per cent alcohol, some wine advocates insisted that alcohol in wine was rendered harmless by incorporation in wine (Rorabaugh, 1979:101-102).

In 1872 in France, the temperance movement advocated moderate use of wine, and by 1900 wine had been classified in France as a “hygienic drink” which was deemed to be associated with good health (Prestwich, 1988:111). France has a long history of favouring wine over other drinks, with doctors quoted in 1914 as saying that “wine produced an inoffensive happy form of inebriation” (Prestwich, 1988:20). In 1945 the Minister of Health in France said that “one must not confuse wine with alcohol” and in the 1950s 80 per cent of French people were polled as believing that wine was essential for good health (Prestwich, 1988:260).

Favouring wine was thus often believed to be central to managing over-consumption of other beverages; wine was not only healthy, it was sensible. In the 1930s in post-Prohibition US, there was a belief that the key to managing alcohol consumption lay in favouring beer and wine over spirits (Pauly, 1994:311). In 1988 in Australia, the South Australian Minister of Health was of the opinion that the government should not introduce taxes which would damage the wine industry which “is involved in the sensible use of alcohol” (Lewis, 1992:187). In 2000, the red wine producers in the European Union member states were quick to refer to research suggesting that moderate quantities of wine could help reduce the risk of heart disease (Lubkin, 1997:15).

The potential for the Nordic countries to move towards a wine-drinking culture similar to that of the Mediterranean countries had been identified as early as the 1850s in Norway as the only effective solution to the alcohol problem caused by excessive spirits consumption (Horverak, 2012:7). Over a hundred years later, this promotion of a ‘continental’ southern European drinking style was reinforced by maintaining the price of red wine unchanged from the state monopoly store for 18 years. By 2009 in Norway, beer accounted for 44 per cent of consumption measured by alcohol content, wine for 34 per cent, and liquor for 22 per cent – a significant change over 70 years from the 1939 figures of 37 per cent for beer, 13 per cent for wine and 50 per cent for liquor (Horverak, 2012).

However there are puzzling challenges to this central notion of wine as a healthful drink. Despite the favourable tax treatment in countries such as France and Italy, there has been a phenomenon in the last 40-60 years in which the wine-drinking European countries have reduced their consumption of wine and moved towards increased consumption of beer and spirits. It has been argued that this represents a move towards a more globalised drinking culture in which the high spirits drinking Nordic countries have simultaneously moved towards higher beer and wine consumption (Allamani & Prina, 2007; Simpura, 1998; Sulkunen, 1989).

Moreover, the consumption of wine has not always been associated with good health. In the mid 1890s in Norway, ordinary people started drinking wine, although it was cheap imported wine to which liquor had been added to make the ‘wine’ stronger. The new commodity was called ‘laddevin’ and was very sweet. In 1904 the duty on the imported wine almost quadrupled and the maximum alcohol content of wine was reduced from 23 to 21 per cent in an effort to curb its consumption (Horverak, 2012). In 1995 in the Northern Territory in Australia a levy on the sale of cask wine, which was favoured for binge drinking because of its relative cheapness, was introduced. In response, consumption shifted to casks of port, before a High Court decision over-ruled the capacity of a state or territory to impose what was effectively an excise tax, a right reserved to the Federal Government (Gray et al., 1999).

Setting aside these exceptions, beliefs in the health-giving aspects of wine over spirits are not sufficient to explain its preferential treatment in the wine producing as compared to non-wine producing countries. A more persuasive argument is that it is the powerful wine producing lobby that has produced this preferential tax treatment. In both Australia and France the history of tax policy on wine has been one of regular concessions to the wine lobby (AERF et al, 2008:20; Prestwich, 1988:279). But that then begs the question of why the wine lobby is so much more effective and powerful than the beer and spirits producing lobbies.

### ***The exceptional power of the small producers***

In France in the late nineteenth century the wine industry was an important source of national wealth. After the phylloxera crisis in the 1880s, throughout the 1890s winegrowers regularly demanded the abolition of taxes on wine as a means of reconquering their lost consumer markets (Prestwich,

1988:18,110). In Australia at the same time, colonial wine making had been expanding since the 1860s (Dingle, 1980:232), and at the time of Federation, when the power to set customs and excise taxes was transferred from the states to the new Federal Government, as previously mentioned, the excise taxes on wine were set at zero. This was deemed necessary at the time to protect the vignerons. For example, in a speech in 1902 one of the rural members of parliament stated “in Victoria we have always done what we could to encourage the wine-grower” (HoR, 6 February 1902).

By 1914 in France, the powerful wine lobby had succeeded in shifting most of the tax burden onto industrial alcohol made from sugar beets and grain (Prestwich, 1988:10). In Australia in World War II the wine industry lost its export markets and, facing disaster, the wine lobby succeeded in having wine exempted from a requirement to reduce sales of alcohol. During this period wine sales doubled (Kirkby, 2006:215).

In Australia in 1970 an excise tax on wine was introduced but it was quickly abolished in 1972. At that time the concern was a loss of export markets following the UK’s entry into the European Economic Community, as well as import competition (HOR, 25 May 1972:3079). In addition, the Minister for Primary Industry himself represented a wine growing district and was likely influenced by the many grape growers who were his constituents.

Although France retained an excise tax on wine in 1997 (unlike Italy where it moved to zero), the point was more to allow the French government to monitor the movement of wine whose value on the commercial market was largely a function of its origin (Lubkin, 1997:15).

In 2000 Australia introduced a Wine Equalisation Tax (WET) to replace the wholesale tax after the introduction of the Goods and Services Tax (GST). The WET taxed wine products based on value not on alcohol content. An additional producer rebate meant that the net tax payable on wine products varied according to both the value of the wine produced (with cheaper wines attracting less tax) and the value of the producer’s production (a small producer would have no net WET liability). The effect of this was to exempt the vast majority of wineries from paying tax (Anderson, 2010b). The key to understanding this lies in the size of the producers; it is the livelihood of many small grape growers which is the main policy driver.

A further argument in support of this explanation of the power of small growers to influence tax treatment is found in two other examples. In 1804, as a legacy of the French Revolution, domestic distillers (*bouilleurs de cru*) in France were able to distil the fruits grown on their own land without being taxed or supervised so long as the alcohol was for personal or family consumption (Prestwich, 1988:14). This right has been challenged and changed over the years, being removed in 1940 and restored in 1949, but remains a potent force in French policy-making. Two hundred years later in Australia, the power of the small producer is again being exercised, as boutique or microbrewers call for the differential tax scheme enjoyed by wine producers to be extended to them, so far with limited results (Red Bay Brewery, 2011).

### Why are spirits taxed more heavily than other alcoholic beverages?

In the UK at the start of the eighteenth century gin production and retailing were actively encouraged.<sup>7</sup> Gin was based on domestic corn and its contribution to the economy contrasted favourably with imported grape-based brandy. Within 30 years, excessive consumption of gin was perceived to be a major social problem. By the Gin Act 1729 the excise tax on gin was raised in an effort to discourage

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<sup>7</sup> The following section draws heavily on Nicholls (2009).

consumption. Subsequently (Gin Act 1736) the cost of a licence to sell gin was raised so much it amounted to prohibition. 1740 was the peak of the gin craze. Gin drinking had become:

*...very common especially among the people of lower and inferior rank, the constant and excessive use whereof tends greatly to the destruction of the health, rendering them unfit for useful labour and business, debauching their morals, and inciting them to all manner of vices (Nicholls, 2009:38, quoting from the 1736 Gin Act).*

It was also recognised that it threatened future prosperity through its impact on unborn children, as gin was popular with women. Anti-gin campaigners argued that spirits produced a new, 'instantaneous' kind of drunkenness. In 1743 the Gin Act 1736 was repealed as it had not been effective, as most gin sellers continued to sell without licences. The cost of licences and duties were again increased in 1751. It was only a run of poor harvests and a subsequent ban being placed on domestic distillation in 1757 that led to the gin craze subsiding. Nevertheless the taste for spirits did not completely disappear and high duties led to such persistent smuggling problems that in 1825 lower duties were introduced; these resulted in a doubling of spirits consumption in a year. So long as spirits were cheap, people would drink them.

Australia had its own history of excessive consumption of rum in the early militarised context of colonial settlement, even leading to a 'rum rebellion' in 1808 when the Governor of the Colony of New South Wales (NSW) was imprisoned for a year after trying to reduce the corruption of the military involved in the rum trade and illicit production (NSW Bureau of Statistics, 1904-05:22). High levels of spirits consumption reflected domination of the population at that time by adult males, the heaviest drinkers (Dingle, 1980:240). Spirits were popular because they were easily imported or distilled locally, and could be carried long distances without deteriorating. Brewing a palatable beer or importing one in good condition proved much more difficult, so that only one third as much beer was being consumed in NSW as in England and Wales (Dingle, 2001:20).

In 1819 the Governor of NSW was given power to impose customs duties on imported alcohol (Commonwealth Bureau of Census and Statistics, 1909:39). Since the customs duties were directly imported from English Acts of the period, the taxation schedule in NSW was directly influenced by the context in England which was undergoing a period of great changeability in the duties on spirits, with it being unclear whether reducing smuggling of spirits, dampening demand for spirits, or encouraging demand for beer were the primary drivers. The gin craze was in one sense long over, but the memory of the potential for damage associated with spirits remained. However within three years the duty for spirits in NSW was reduced 40 per cent.

In Norway there was a similar story of concern about spirits. In 1816, the new Norwegian parliament allowed farmers to distil their own spirits, which led to a sharp increase in consumption. In the 1820s there were "appalling scenes of excess" at guest houses selling liquor (Horverak, 2012:8-9).

In the US in the colonial era most of the alcohol consumption occurred in the home, where most of it was produced.<sup>8</sup> During this pre-Revolutionary period, the alcohol was mainly in the form of beer and, where apple trees grew, cider. The great exception was distilled spirits (liquor). Initially the favourite hard liquor was rum based on sugar cane from the West Indies, and produced from distilleries in Britain's colonies. After the Revolution, around the 1760s to 1780s, American drinkers switched from rum to whiskey, distilled from domestically produced grains, pushed along by higher taxes on imported rum. Whiskey was thought to be superior to unsafe water or milk, expensive coffee, tea and wine, or sour beer and many Americans thought liquor was healthy and nutritious. However, in 1785

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<sup>8</sup> The following section draws heavily on Rorabaugh (1979).

Dr Rush's moral thermometer (Figure 2) identified a long list of ills to be experienced from drinking spirits.

In 1791 an excise tax was introduced on spirits. This led to a 'Whiskey Rebellion' in 1792 as the liquor tax was resisted, being seen as an encroachment by the central authority, and an infringement of the ordinary man's freedom to drink. It was rescinded in 1802. When the excise tax was abolished it was also judged to have failed in part because America was a rural nation in which farmers produced a grain surplus that, given the expense at the time of transportation, could be marketed only as distilled spirits. By the 1820s there was a whiskey glut and the price of whiskey made it easily affordable by an agricultural worker. Americans drank more liquor during the early nineteenth century than at any other time in their history.

This was also the era when the temperance movement started in the US. This coincided with industrialisation, including of distilleries, which meant they were no longer located in the local community and community attitudes were easier to challenge. Industrialisation was also a key factor in changing attitudes to excise tax, as the production of whiskey was no longer the preserve of the small growers, as happened, and continues to happen, with a lot of wine production. The leaders of the temperance movement also persuaded farmers to cut down their apple trees in the 1830s, thereby ending the popularity of cider.

There were contrasting attitudes to whiskey: it was healthful to drink because it was made of a nutritive grain; it was patriotic because corn was native; however "because society lacked traditional inhibitions against overindulgence, drinking had disruptive and destructive social consequences" (Rorabaugh, 1979:89). The old custom of drinking small amounts of alcoholic beverages regularly and frequently throughout the day was declining and binges, whether communal or solitary, were increasing. It was the changing patterns of drinking rather than increased consumption that alarmed so many Americans.

By 1850, 90 per cent of the alcohol consumed by US drinkers was still in the form of distilled spirits. Distilled spirits were less costly to transport and store compared to fermented beverages. However by the 1850s-70s changes in technology resulted in a challenge to whiskey drinking by lager beers. Also the creation of a canal network and the railways made it feasible for farmers to ship their grain to eastern population centres rather than distilling it into whiskey.

Excise tax did not become a substantial source of income in the US until after the civil war when Federal authorities needed cash. From 1868 to 1913 almost 90 per cent of all inland revenue came from excise on alcohol and tobacco, with the alcohol contribution reaching 35 per cent in 1892-1916. By 1900 spirits contributed less than half of total consumption of alcohol in the US. There was a reduction in overall consumption, and a partial but substantial replacement of spirits by beer in American preferences.

The national constitutional prohibition of all intoxicating liquor took place in the US in 1919. The Volstead Act 1919 was based on the belief that it would reduce crime and other social problems; make workers more efficient, productive and disciplined; and weaken the saloon as a centre for working-class social and political life. The major effect of the Act on drinking was to dramatically reduce beer drinking, so that most consumption during Prohibition was of hard liquor. The fashionableness of the martini and other mixed drinks among the middle class was in part a legacy of prohibition, when criminalisation made hard liquor the most available form of beverage alcohol.

After alcohol production became legal again in 1933, regulating the alcohol market became a state responsibility, and diverse systems were set up, with continuing prohibition in some states for a while.

Where alcohol became legal, spirits and wine were the most controlled. Special stores were created to sell only distilled liquor. Beer, on the other hand, was made relatively widely available in bottles and cans and grocery stores and small markets were licensed to sell it. This resulted from an overall strategy that favoured beer and wine over spirits, with a Yale physiologist having been quoted as saying “beer was not intoxicating” (Pauly, 1994:308).

After Repeal, the excise on alcohol swiftly increased to over ten per cent of national revenue. The extra expenditure for World War II was in part paid for by an increase in the excise on alcoholic beverages, mainly spirits, on which the excise tripled (Rubin, 1979). Ever since that period excise tax has been seen to be primarily a revenue-raising measure. While the efforts of industry lobbies have forestalled increases in excises since 1991, they have not been successful in overcoming the disparity between taxes on different alcoholic beverages.

The taxation history of spirits had a minor diversion in the 2000s when ready-to-drink spirits-based beverages (RTDs or alcopops) were taxed in many countries at a much lower rate than spirits. This led to a dramatic increase in spirits consumption especially by teenagers or, more specifically, teenage girls. This resulted in dedicated tax changes to close this anomaly, for example in Norway in 2003-2004 and in Australia in 2008, with a resulting drop in consumption (Horverak, 2012; Skov et al., 2011).

### What were the main drivers of beer excise taxes historically?

The history of beer excise is frequently intertwined with the spirits excise policy. As discussed above, beer excise had been set at a level to encourage greater beer consumption at the expense of spirits in eighteenth century England, and in post Prohibition US. But the opportunity to raise revenue from beer excise has been especially favoured in the beer drinking countries of the UK and Australia, and in countries such as Norway and the US with a strong beer drinking tradition. This tendency has been at its strongest during war time.

In the UK a tax on malt used in brewing was increased dramatically over the period from 1760 to 1815 to fund wars in America and France (Nicholls, 2009:88). By 1803 taxes on alcohol accounted for 44 per cent of Britain’s total revenue. Efforts in the UK to increase beer consumption at the expense of spirits were tackled more broadly through trade liberalisation measures in 1830, rather than through any excise relief. However, the government was dependent on excise tax on alcohol throughout the nineteenth century and well into the twentieth century when income tax became more important. During World War II the basic duty on a barrel of beer in the UK almost tripled (Nicholls, 2009:188).

In Australia, as each colony was founded, a brewery soon emerged (Fitzgerald & Jordan, 2009: 71). Beer’s relatively poor keeping qualities meant only small distribution ranges were possible, and so breweries spread not only throughout the large cities but also in country towns. Despite the growth of the Australian brewing industry, many still preferred to drink imported beer from Europe and the US, denouncing the colonial beers as inferior. Most of the imports were in draught form, as bottling techniques were not sufficiently developed until the mid-nineteenth century to suit long sea voyages (Fitzgerald & Jordan, 2009: 72). It was not until the introduction of Bavarian lager production methods, refrigeration and other manufacturing developments in the 1880s that Australians had access to a “refreshing, cold brew on tap to slake a thirst when the weather was hot” (Fitzgerald & Jordan, 2009: 75).

Over the course of the nineteenth century beer replaced spirits to become the most popular beverage in the Australian colonies, being responsible for 85 per cent of alcohol consumption in the early 1900s, compared to less than ten per cent for spirits (Commonwealth Bureau of Census and Statistics, 1901-

1907:762; Kirkby, 2006: 205). By the late 1880s domestic beer accounted for 80 per cent of all beer consumed and by 1913 domestic beer had risen to 95 per cent of all beer consumed.

As previously argued, excise taxes did not become important until after Federation in 1901, which was also the time at which Australia became predominantly a beer drinking country. During World War II, excise duties on both spirits and beer increased to help raise revenue, but the excise increase on beer was disproportionately large. Although beer consumption only increased by 13 per cent from 1939 to 1945, the excise tax revenue tripled. Spirits revenue also tripled but this was partly in response to the consumption of spirits more than doubling during the war. The revenue from beer in 1945 was four times higher than the revenue from spirits, and beer excise was an important source of revenue (Commonwealth Bureau of Census and Statistics, 1944-45:378-379,667). By the 1970s, beer showed the most dramatic increase in its proportion of total consumption, to two to three times higher than the average for most of the nineteenth century, confirming Australia as primarily a beer drinking nation.

In the US, taxes on beer increased by 50 per cent between 1940 and 1944, which was not as high as the previously mentioned increase in spirits excise, but still an important increase (Rubin, 1979). Taxes on beer remained essentially unchanged for the next 40 years and neither state governments nor federal governments in the US received a major portion of their revenue from taxes on alcoholic beverages (Mittelman, 2003:610).

In Norway in 1857 a malt tax was introduced on breweries for the hops from which beer was brewed. This tax was increased repeatedly and by 1895 it was five times as high as the original tariff. In the 1860s a tax was imposed on those who served beer in the towns and cities. By 1890 liquor accounted for more than 60 per cent of consumption and beer around 40 per cent. But it did not matter whether people drank beer or liquor; according to Horverak (2012) all the regulatory initiatives were grounded in a belief of the necessity of fighting alcohol abuse among poor people, and the initiatives were directed at the beverage perceived as the drink of the poor, marginalised drinker.

## Conclusion

Whether viewed over time in Australia or cross-culturally, there has been marked variation in the extent to which different alcoholic beverages are differentially taxed. One consideration has been perceived differences in the harms associated with different beverages, whether or not the perceptions were grounded in any epidemiological reality. But such a public health and order motivation is only one of a number of motivations for differential taxation, and has not usually been the controlling motivation.

The cross-cultural comparison of differential excise tax on the different alcoholic beverages in this study reveals that wine taxes are set low in wine producing countries primarily because of the political power of small producers, and the more industrialised nature of spirits and beer production means there are fewer political constraints on taxing them. There is a widespread use of excise taxes on spirits to try and influence consumption patterns to counter social disorder and adverse public health, although there are limitations on its effectiveness. However, the use of excise taxes to influence consumption cannot be seen in isolation from other policy measures such as prohibition or controlling availability. Excise has a long history of being used primarily for revenue-raising, especially in times of war, and this has had a major impact on beer excise taxes at specific periods in history.

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