

Winning Together
Beer Marketer's INSIGHTS Seminar
November 4, 2002

Guy L. Smith, Senior Vice President for External Affairs
Diageo North America

Probably the most onerous public policy burden we, and our consumers, bear comes from taxation. As we all know, beer, wine and spirits are among the most heavily taxed consumer goods. Anywhere from about 40 percent to more than 50 percent of the price to the consumer of a bottle of beer, a glass of wine or a vodka tonic comes from direct and indirect taxes – taxes levied by the Federal government, taxes levied by the state government.

As the Beer Institute frequently points out, the single most expensive ingredient in beer is not the hops, not the barley, not the corn, not the yeast, not the water, not even labor. It's the combination of Federal and State taxes. The same is true of distilled spirits. The same is true of wine.

The ostensible public policy reason for these excessively high taxes is that their proponents say they reduce the problems associated with the misuse of alcohol by pricing abusers into good behavior.

That is just not so.

The premise violates the findings of highly regarded, credible researchers. Their studies show that the level of consumption of abusive drinkers is not influenced by price. They also show that raising taxes, in particular on beer, does not reduce drunk driving by adults or by teenagers.

The premise even violates the wisdom of the US Supreme Court, which, in 1996, noted that "... the evidence suggests that the abusive drinker will probably not be deterred by a marginal price increase, and that the true alcoholic may

simply reduce his purchases of other necessities” – things like putting bread on the table or paying the rent.

What the onerous burden of federal and state excise taxes actually does is punish responsible, moderate drinkers, especially those who are lower and middle income Americans. Because these taxes are by their nature regressive, the burden they impose on lower income American families is five times greater than it is for upper income Americans.

The real effect of these excise taxes, then, is to *discourage* responsible, moderate enjoyment of beer, wine and spirits and to make the lot of poor and middle-income American families worse, not better. It is hard to see how reasonable people could see that a public policy that has such a consequence is a *good* public policy.