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News Release

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FOR IMMEDIATE RELEASE

Setting minimum prices for alcohol: A MORE EFFECTIVE STRATEGY TO REDUCE DRINKING

BERKELEY, CA – Research has shown that increasing price is a promising approach to reducing alcohol consumption and related problems. However, a new study finds that price increases may not always have the intended effects on alcohol sales because the price and availability of alcohol can have a complex relationship to consumption. Instead, the most effective strategy may be the establishment of minimum prices for each type of alcoholic beverage.

“Alcohol brands are available in different types and levels of quality and price,” said study author Paul J. Gruenewald, senior research scientist at the PIRE Prevention Research Center. “The effects of price increases resulting from taxation depend on how the prices change across these different levels.”

Entitled “Alcohol Prices, Beverage Quality and the Demand for Alcohol: Quality Substitutions and Price Elasticities,” the study is published in the January issue of *Alcoholism: Clinical & Experimental Research*.

“In general, the evidence suggests that as you increase taxes, and alcoholic beverages become more expensive, individuals tend to use alcohol less,” added Raul Caetano, professor of epidemiology and assistant dean at The University of Texas School of Public Health. “However, because there are alcoholic beverages at different levels of price, when you implement taxation, what happens is that the individuals who are able to purchase expensive alcoholic beverages can just switch to less expensive ones.” Caetano authored a commentary on the research in the same issue.

In fact, the intent of the taxation may sometimes be reversed, in that alcohol consumption increases rather than decreases. A consumer who switches to a much lower-cost brand in response to a price increase may actually be able to buy – and consume – more.

The report suggests that a simple form of regulation -- minimum price posting by type of alcoholic beverage -- may be the best form of regulation. Minimum price posting legislation sets a limit on how cheaply each alcohol product can be sold. Thus, distributors cannot respond to a tax increase simply by providing lower and lower priced beverages.

For this study, researchers analyzed Swedish price and sales data from 1984 through 1994. Data from Sweden was used because it is particularly detailed and accurate. Increases in prices of expensive alcohol have little impact on sales – possibly because consumers who purchase the highest quality, costliest beverages are relatively immune to price changes. By contrast, increases in prices of inexpensive alcohol have large impacts on sales, most likely because consumers who purchase the cheapest alcohol have difficulty affording even the least expensive brands when prices go up. Therefore, tax increases have different impacts on sales, depending upon how they are passed on to consumers.

Consumers can respond to price increases by altering their total consumption and by varying their brand choices. “The full impact of any policy must take into consideration the

potential freedom of consumers to change their beverage of choice from wine to beer or liquor, or to consume beverages that are cheaper,” Caetano said. “This is particularly important in western societies where affluent consumers have a lot of freedom to choose. Our results show that it would be much better to increase prices of low-level alcoholic beverages than to increase prices equally across all beverages.”

Gruenewald pointed out that the details of any policy intervention are key to its success. “If a tax is passed on by raising prices primarily on already expensive brands of alcohol, impacts on sales will be small,” he said. “If a tax is passed on by raising prices primarily on inexpensive brands of alcohol, impacts on sales will be large.

“Policy makers should be very sensitive to the manner in which alcohol distributors can pass a tax on to consumers,” he said. “Beverage prices can be manipulated by the alcohol industry to its own ends, in order to maximize the consumer base or minimize tax impacts. In fact, ever cheaper alcoholic beverages are being made available in the market in order to ensure continuous growth in the consumer base.”

PIRE, or Pacific Institute for Research and Evaluation, is a national nonprofit public health research institute with centers in seven cities and funded primarily by federal research grants and contracts.

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A full copy of the manuscript may be obtained by contacting Mary Newcomb with the ACER Editorial Office at 317.375.0819 or mnewcomb-acer@earthlink.net. This project is supported by the Addiction Technology Transfer Center Network.