

## What is alcohol affordability?



Alcohol affordability is a measure of consumers' ability to purchase alcohol, which varies according to the price of alcohol and consumers' income. An increase in the price of alcohol means a decrease in alcohol affordability, and an increase in consumers' income results in increased alcohol affordability. Decreasing alcohol affordability is one of the key public policy measures recommended to reduce alcohol consumption (1).

## How can alcohol affordability be lowered?



Alcohol affordability can be reduced by increasing the relative price of alcohol through **alcohol taxation and pricing policies**. These policies are highly cost-effective alcohol control measures (2).

## What are the advantages of alcohol taxes?



**1.** When properly designed and implemented, alcohol taxes represent a win-win-win policy option, by:

- a)** Reducing consumption of alcoholic beverages, including by young people and heavy drinkers.
- b)** Reducing the health and social costs of alcohol consumption such as:
  - Direct healthcare expenditures.
  - Productivity costs.
- c)** Increasing revenues to governments.

**2.** Reducing alcohol affordability can lead to a reduction in (1):

- a)** Consumption of alcohol and the prevalence of alcohol dependence as well as alcohol-related diseases and deaths.
- b)** Drink-driving prevalence and the number of alcohol-related road traffic injuries and deaths.
- c)** Early initiation of alcohol consumption among young people, and subsequent binge drinking.

**d)** Alcohol consumption and alcohol-related problems among heavy drinkers.

**e)** The occurrence of suicide, violence and the number of new cases of sexually transmitted diseases.

**3.** Revenue from taxes on alcohol can potentially be dedicated to prevention, treatment, health promotion, and alcohol control interventions, given context-specific considerations.

# ALCOHOL AFFORDABILITY: WHY DO ALCOHOL TAXES MATTER?

## What is the most effective tax policy option?

**1.** Excise taxes on alcohol beverages are taxes applied specifically to alcoholic beverages. They are among the most cost-effective policies to prevent harms, reduce consumption, and delay and prevent drinking initiation by young people.

**2.** Tax design matters. Some considerations include:

**a)** Alcohol excise taxes can be structured as a specific tax based on quantity, such as the total product volume or the amount of ethanol, or as an ad valorem tax based on the value of the alcoholic beverage (e.g. the retail price of the product), or as a combination of specific and ad valorem taxes.

**b)** Alcohol excise taxes can further be structured as uniform (the same tax rate applied across alcoholic beverage categories) or tiered (taxation rate tiered based on the type of alcoholic beverage and its ethanol content).

**c)** The structure of an excise tax will determine its impact; therefore, it should be developed and implemented based on policy goals.

**d)** Alcohol excise taxes should be applied to all alcoholic beverage categories, to reduce or avoid substitutions.



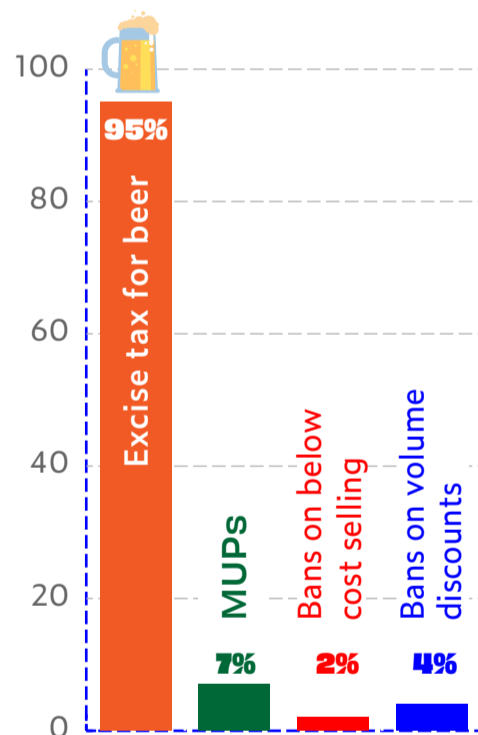
**e)** The effect of tax and price policies on consumption is influenced by the price elasticity of demand. Price elasticity of all alcoholic beverages is around  $-0.5$ , which means that a 10% increase in the price of alcohol will result in a 5% decrease in alcohol consumption. These rates are similar for high-, low- and middle-income countries (2), although there are variations by beverage type and drinking culture.

## Effective non-tax price policy

### options that can complement tax policies

- Minimum pricing/minimum unit pricing (MUP) sets a minimum floor price per standard alcoholic drink or per unit of ethanol (in the case of MUP) below which the product cannot be sold to consumers.
- Bans on sales below costs mandate that sellers cannot set the price below their cost of doing business to attract consumers or drive out competitors.

- **Restrictions on sales promotions:** prohibit discount marketing strategies that sellers temporarily use to enhance alcohol sales (e.g., happy hours and volume discounts).
- **From the 164 reporting countries worldwide, 95% have excise tax for beer, 7% MUPs, 2% bans on below cost selling, and 4% bans on volume discounts (3).**



## Key policy considerations

**1.** Taxation rates should be increased periodically and above the relative increase in inflation and income growth to achieve a continuous decline in alcohol consumption and harms.

**2.** Increased tax rates are unlikely to increase unrecorded alcohol consumption if comprehensive alcohol control measures are implemented simultaneously to combat production and sale of illegal alcohol products.

**3.** Alcohol taxation rates should not be decreased during an economic recession or

depression as the prevalence of harmful drinking may increase in those periods.

**4.** Increased tax rates are unlikely to harm the economy (4) and the public health benefits of alcohol pricing policies far outweigh any potential economic disadvantages (2).

**5.** Excise taxation measures should be complemented by other country-specific, evidence-based alcohol control policy interventions aimed at reducing alcohol consumption.

## References

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