

Economic Impact of
The Small Brewer Reinvestment and
Expanding Workforce Act
(H.R.232 and S. 375)

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Economic Highlights of Excise Tax Reduction (H.R. 232 and S. 375)

- The proposed reduction in the federal excise tax on beer produced by small brewers (i.e., brewers producing up to 6 million barrels of beer per year) would increase economic activity by \$172 million in 2015 and \$990 million over five years.
- Net federal tax revenue would fall by \$32.2 million in 2015 and \$185.6 million over five years.
- Economic activity would increase by \$5.34 per dollar lost in government revenue, making the bill an efficient use of government funds.
- The bill would stimulate job creation quickly and at a low cost.
 - The bill would generate roughly 5,000 new jobs over the first year to eighteen months. Total jobs created grows to 6,400 after five years.
 - Each new job would cost just \$6,500 in foregone government revenue in 2015.

Proposed Reform

Currently, small brewers pay \$7 per barrel in federal excise tax on the first 60,000 barrels produced. Only those brewers producing fewer than 2 million barrels per year are eligible. Otherwise, brewers pay the full federal excise tax of \$18 per barrel.

H.R. 232, proposed by Rep. Paulsen (R-MN) (and 16 co-sponsors), and S. 375 proposed by Sen. Cardin (D-MD) (and 24 co-sponsors), would reduce the excise tax applicable to small brewers producing up to 6 million barrels per year in two ways. First, the tax rate applicable to the first 60,000 barrels would be lowered to \$3.50 per barrel. Second, the tax rate on additional barrels below 2 million per year would be reduced to \$16.

Economic Impact of the Small Brewers Excise Tax Reduction²

Potential Price Decline:

- The proposed reduction in the beer excise tax would reduce taxes paid per case by \$0.17 in 2015, or 0.49% based on an average price per case of \$34.44.³
- For small brewers producing fewer than 60,000 barrels per year, the reduction in excise taxes paid per case would be larger at \$0.25 per case, or 0.74%.
- The reduction in excise taxes should lower prices, although the price may fall by less than the full reduction in taxes. Note that this “price reduction” may also appear as smaller price increases, as the prices of craft beers have increased by several percentage points each year in the past five years.

Increased Demand:

- As a result of the decrease in excise taxes, consumers would purchase an additional 2.1 million cases of beer from small brewers in 2015.⁴ The proposed excise tax reduction would generate additional revenue for American small brewers of \$69.3 million in 2015.
- The extra revenue for small brewers would increase to \$90.4 million by 2019, for a total of \$398.8 million over five years.⁵

² The projections set forth in this study assume a passage date of January 1, 2015. If the bill were passed at some later time, then the impact of the bill on economic activity in the first calendar year after passage would be roughly what this report projects for 2015, and so on after that. The overall impact of the bill over the first 5 years would not change.

³ For this analysis, a case is defined as containing 24, 12 fluid ounce bottles. \$35.12 is the average price per case of craft beer in scan channels based on IRI Group analysis. The majority of beer from small brewers is considered “craft beer.”

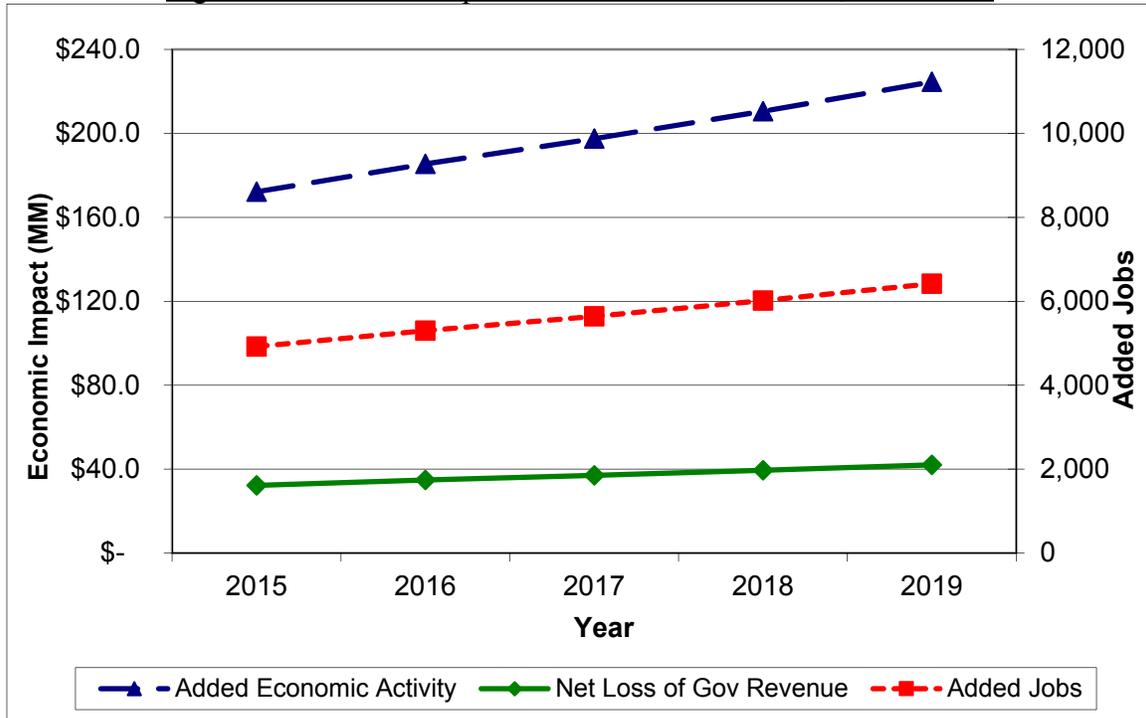
⁴ The latest data available is for 2013. To project sales for 2015, I take the average growth rate in the craft brewing industry over the past 7 years, which is 10.1%.

⁵ To project the impact of the proposed tax change, I assume that, in the absence of the reform, price and quantity would continue to grow at historical trends. Volume grows by 10.1% per year, price by 2.2%.

Economic Impact:

- In 2015, the excise tax reduction would increase economic activity by \$172.2 million.
- By 2019, the increase in output would rise to \$224.6 million. The total impact over five years would be \$990.5 million.

Figure 1: Economic Impact of Excise Tax Reduction, Over Time



Jobs Created:

- When the economy grows due to the excise tax reduction, workers must produce additional goods and services, and so the bill would create 4,900 new jobs in 2015.
- This large increase in jobs would occur in the first year to eighteen months following the passage of the bill, regardless of the date of passage. In the years that follow, the cumulative jobs added climbs slowly to a total of 6,400 after 5 years.
- These estimates are based on estimates that each \$35,000 of increased GDP creates one new job.⁶

Total Impact on Government Revenues:

- The proposed excise tax reduction would directly reduce the excise tax revenue collected by the federal government by \$78.8 million in 2015.
- This loss is offset in large part, however, by \$45.1 million in new payroll and income taxes collected on the increased economic activity.⁷ The government would collect an additional \$1.4 million in excise taxes from the increase in craft beer sales.
- The net yearly revenue loss would therefore be \$32.2 million in 2015. The total net revenue loss over five years would be \$185.6 million.

⁶ Shoag (2011).

⁷ I assume an average marginal tax rate of 26.8%, based on the NBER TaxSim .

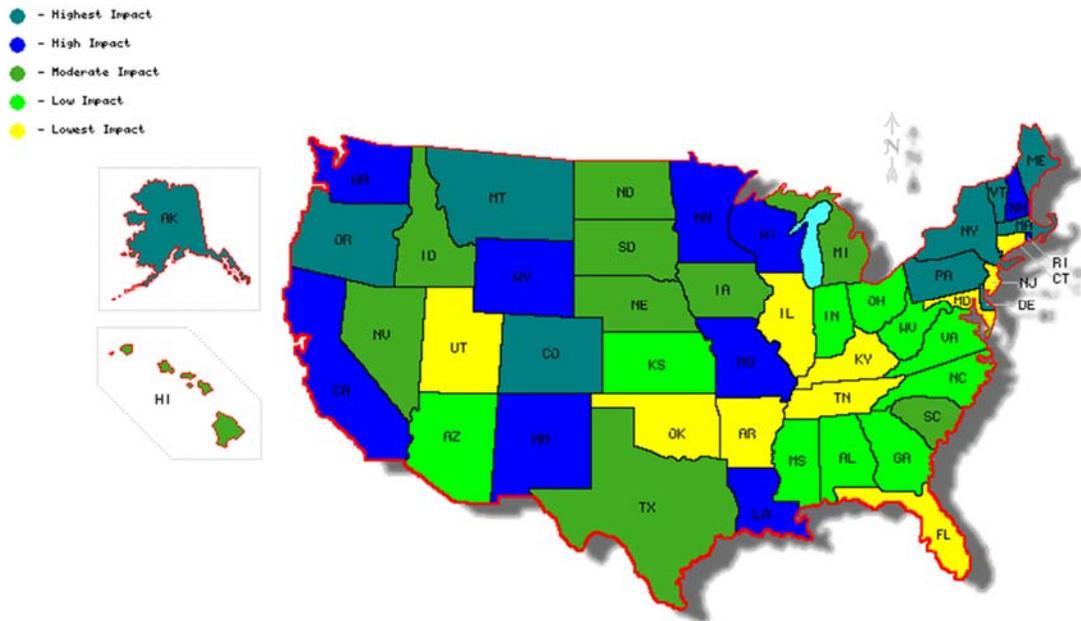
Revenue Cost of Increased Economic Activity and Jobs:

- H.R. 232 and S. 375 would generate \$5.34 of additional economic activity per lost revenue dollar in 2015. A similar calculation implies that this bill would cost the government \$6,500 in lost revenue per job created.
- These numbers compare favorably to the efficiency of many other spending and tax cut provisions. For instance, the Council of Economic Advisors estimates that the most effective provisions of the American Recovery and Reinvestment Act of 2009 generated one job per \$92,136 of spending.⁸

State-by-State Estimates:

In addition to the national estimates, I calculate the estimated impact of the excise tax reductions on jobs and economic activity in each state. I assume that economic activity generated by increased craft beer sales accrues to each state based on the location of breweries. I assume that economic activity generated by savings on beer already purchased accrues to each state based on per-capita consumption. Finally, I assume that 30% of all economic activity accrues nationally (based on population shares) instead of locally. To correct for the mechanical effect of size, I then scale the number of jobs created by the population to calculate per capita numbers.

Figure 2: Geographic Distribution of Economic Benefits



This figure shows the distribution of the increased economic activity and jobs created by state. The darker the state, the more jobs are created. Not surprisingly, the economic impact of the excise tax reduction is largest in states such as Oregon, Colorado and Pennsylvania where there are the greatest concentrations of craft brewers.

⁸ See CEA, “Estimate of Job Creation from the ARRA of 2009,” May 2009.

Methodology

I estimate the economic impact of this reform in three steps:

First, I estimate, for each brewer, the decrease in excise tax owed. This is a mechanical calculation based on the current and proposed laws.

Second, I estimate the increase in consumer demand for small brewer beers. I assume a tax elasticity of 0.88, which implies that if the price of beer falls by 1% then demand increases by 0.88%.⁹ Note that this analysis does not require that prices fall by the full amount, since 0.88 is a *tax* elasticity. Furthermore, I assume that 80% of the increase in small brewer beer sales represents new spending, while 20% is offset by decreased spending on other alcoholic beverages.

Third, I estimate the impact on economic activity. There are two channels through which the tax cut affects the economy. First, increased spending on beers from small brewers drives further economic activity. Given that this money is directly spent, I use a government spending fiscal multiplier to estimate the total impact of this extra spending.¹⁰ This accounts for not just the impact of the direct spending on beer, but also the indirect affect from increased brewery investment and employment. This effect accounts for 45% of the GDP gains from the bill. Second, the excise tax reduction means that consumers pay less for the beer they are already buying and firms earn more from beer they are selling. Since this represents an increase in unearned income, I translate these savings into total economic activity using the fiscal multiplier for government transfers.¹¹ The second effect represents 55% of the GDP gains.

It is worth noting that this report does not attempt to account for any negative externalities from the projected increase in beer consumption such as increased crime, property damage, and vehicle accidents. It would require very strong assumptions that go beyond the scope of this report to estimate the costs associated from increases in these behaviors. Thus this report follows other reports of this type (for instance, CBO Budget Options) and quantifies only the direct economic impacts.

Changes in This Version

The current version of this report uses 2013 sales data, by brewing company, to project forward the economic impact of H.R. 232 and S. 375. The industry has somewhat expanded, increasing the economic impact of the bill; however, the economy has grown back much closer to full employment, and so I follow CBO and use multipliers that are 20% smaller. As a result, the economic effects are somewhat smaller. The average marginal rate has also falls to 26.2%, based on combined state and federal taxes from NBER TAXSIM.

⁹ See Chetty, Looney and Kroft (2009), among others in the literature.

¹⁰ The precise assumption is 1.75, the middle of the CBO government spending range. See CBO "Estimated Impact of ARRA on Employment and Economic Output," November 2009.

¹¹ The precise assumption is 1.5, the middle of the CBO government transfer range. See CBO above.