

HOW THE WAR IS AFFECTING REVENUES FROM AND
THE DISTRIBUTION OF ALCOHOLIC BEVERAGES IN MARYLAND

In any endeavor to estimate the revenue to be derived from excise taxes on alcoholic beverages for the years 1943, 1944 and 1945, an analysis must be made of existing factors and an insight into what can be expected and what may happen in the future.

Distilled Spirits

We must realize that we are passing through a period that is almost unpredictable because of the ever changing events in our daily life due to the effort being waged to win the war. Since the early part of 1942 one distillery after another has discontinued manufacturing distilled spirits for beverage purposes in order to manufacture alcohol exclusively for war needs. On October 8, 1942 all manufacturing of distilled spirits was entirely discontinued by the Federal Government. On October 1, 1942 (the beginning of the State Fiscal Year) warehouse stocks of distilled spirits on hand in the United States amounted to 521 million proof gallons (after which time to and including October 8, 1942, 7-1/2 million proof gallons was produced) of which 9 per cent, representing 45-1/2 million proof gallons, was stored in Maryland. The amount withdrawn from storage for use during the fiscal year ended September 30, 1942 was 148 million proof gallons. If withdrawals continued annually at the same rate, indications would be that the supply would last for 3-1/2 years. The Government allows for actual losses for soakage, leakage and evaporation as much as 14 proof gallons per barrel for spirits averaging between 4 and 7 1/2 years of age when withdrawn from storage. On this basis it is believed that 85 million proof gallons of the warehouse stocks are non existent.

It is a recognized fact that distillers have no intention of allowing themselves to be confronted with the position they were in immediately after repeal when they were forced to sell unaged whiskey. In order to avoid that situation from recurring, it is understood they are withholding more than 150 million proof gallons so that the sale of aged whiskey will continue after the war. Taking into consideration the stock to be withheld until the end of the war plus losses that normally occur, it can be seen that the available warehouse stocks would hardly last two years beginning October 1, 1942 if withdrawals are relatively the same as for the year ended September 30, 1942.

In order to prevent depletion of stock in two years, distilleries have inaugurated their own system of rationing which is now in evidence and being felt by the wholesaler, retailer and consumer. Distilleries had hoped that production of alcohol which has steadily increased from month to month would prove sufficient for war needs to permit the Government to allow them two monthly periods during 1943 to produce for themselves and thus build up their warehouse stocks. War needs for alcohol have increased to such an extent that no such vacation in 1943 is in prospect. Other difficulties facing the distribution of alcoholic beverages are, serious shortage of manpower, restriction upon transportation and the difficulty in obtaining supplies and materials necessary to market distilled spirits.

The Government by shifting and freezing manpower could cripple the entire industry except for distilling which is essential for the prosecution of the war. Further restrictions in the transportation of goods considered non essential would seriously add to the handicap of distributing alcoholic beverages and raw materials and supplies such as bottles, caps, labels, cartons, etc. which are necessary to distribute the industry's products. Because these conditions exist at the present time, the quantity of distilled spirits for sale is getting less month by month which will result in less tax revenue to the state. Needless to say, if and when further priorities and restrictions are felt, the revenue from the tax on distilled spirits will diminish accordingly.

Unless drastic action is taken by the Government affecting the distribution of alcoholic beverages, Maryland is possibly in a better position to receive her share of distilled spirits than the average state due to the fact that she produces large quantities of distilled spirits and therefore has 9 per cent of the country's warehouse stock, and has many industries which manufacture products that are allied to the distribution of alcoholic beverages.

Should the war end within a year thus permitting distillers to start production again, (unless employment in general continued at somewhere near its present level, which is unlikely,) there would be less demand for alcoholic beverages which would be reflected in less revenue to the state. It must be considered that with any slackening in employment, coupled with the high taxes on distilled spirits, the illicit still operators and the bootleggers will be a big problem after the war. In the light of present conditions and the future outlook, it seems reasonable that the state revenue from distilled spirits is headed for a gradual decline.

The program adopted by distillers for rationing is now on a month to month basis which renders it difficult to estimate revenues for one or two years ahead. It is evident that this schedule considers that the war will last for 1 1/2 to 2 years more, and any events that would shorten or lengthen the ending of the war would be reflected in increased or decreased distribution as the case may be which would correspondingly increase or decrease any estimate of revenue based upon present conditions. Popular brands are now being distributed with cuts of 25 to 50 per cent less than they were a year ago. Off brands, that is slow movers, odds and ends and brands new in this market, have shown an increase which will only reduce in a small way the total deduction caused by the popular brands that are or will be available because the so-called "off brands" will, in all probability, be out of the picture within six or eight months.

Due to increased consumer purchases resulting from an anticipated shortage of gin, rum, liqueurs and certain brands of whiskey; the federal tax increase, effective November 1, 1942, and because wholesalers had large stocks on hand due to anticipated restrictions in transportation, the state revenue from distilled spirits actually has shown an increase of \$284,000 for the months of October, November and December 1942 when compared with the same months in 1941. This increase will offset to some extent the decrease in tax which will be felt during the balance of the 1943 fiscal year. By applying the increase for the first quarter of 1943 against an estimated decrease of 23 per cent for the remaining three quarters, the net decrease will be 15 per cent for the 1943 fiscal year when compared to the same period in 1942. If present conditions continue, it is estimated that distilled spirits taxes for 1944 will be 30 per cent less, and for 1945, 35 per cent less than the revenue received during the fiscal year 1942. However, assuming that conditions will improve favorably within a year, a conservative estimate of distilled spirits revenue for 1944 and 1945 will be 25 per cent less than such revenue received by the state in 1942 which was \$4,536,866.89.

Beer

Beer is also subject to some of the same restrictions being encountered by distilled spirits but to a somewhat less degree. Many beer retailers who depend on transient trade or trade which customarily uses automobiles to get to their places of business will be forced to discontinue business which will have the effect of reducing consumption.

It is believed that the present restrictions limiting the amount of metal which can be obtained for beer crowns will not materially interfere with beer sales provided restrictions are not increased. This problem has been met in four ways: (1) By the additional sale of quarts, where one crown does the work of 2-2/3 crowns that would be needed on the equivalent in 12 ounce bottles; (2) By the collection and use of empty tin cans to be used to manufacture crowns to add to the allotment allowed each brewer under the Government quota; (3) By the collection and re-use of crowns through a recently developed process whereby the crowns are reconditioned and made as sanitary and satisfactory as if they were new; and (4) By the increased sale of draft beer.

During the fiscal year 1942, 75 per cent of all beer sold in Maryland was brewed in Maryland thereby limiting the transportation problem to deliveries, except for raw materials. Increased sales of beer will result in all thickly populated places and in centers surrounding war plants. Such places will have more demand particularly for draft beer

For these reasons it is estimated that there will be a net possible loss of 5 per cent in the State beer excise tax during 1943 as compared with the tax received during the fiscal year 1942 when the tax amounted to \$1,375,909.57. It appears that 1944 revenue will be off 8 per cent, and 1945, 10 per cent as compared to 1942.

Wine

The sale of wine is faced with most of the problems encountered in the sale of distilled spirits. Approximately 88 per cent of all wine produced in the United States ordinarily comes from the State of California, making transportation a major problem. 30 per cent of the 1942 crop of grapes usually used for manufacturing wine were frozen for food purposes. Wine tank cars have been taken over by the Government making it necessary to transport bulk wine in barrels. To help relieve this situation California winers are endeavoring to increase the shipment of bottled goods.

The shortage of wine in this market was anticipated by many dealers who have stored and sold large quantities. Some of these dealers still have large wine inventories. Some distilled spirits dealers who never before handled wine are now distributing same in order to help maintain volume in sales and keep their organization together. These dealers must of necessity take on the brands they can get which are usually the higher priced, slower selling wines. Established wine bottlers have been cut as much as 40 to 50 per cent of their 1942 deliveries on popular priced wine. It is thought that as stocks get low on popular priced wine, there will be sufficient quantities of higher priced wine to meet the demand provided consumers will pay the price.

From an analysis of this information, it is estimated that wine revenue for 1943 will show an increase of 5 per cent over 1942 which was \$272,607.79. For 1944 and 1945, a decrease of 25 per cent is estimated as the revenue that will be received when compared with 1942.