Extended Essay
Word Count: 3799 words

The Economic Outcomes of the US Prohibition:

To what extent were the economic impacts of Prohibition on the US between 1920 and 1925 unexpected from the perspective of its supporters?

An Extended Essay in History

Prohibition - New York City Deputy Police Commissioner John A. Leach (right) watching agents pour liquor into the sewer following a raid, c. 1920. (Encyclopædia Britannica)

Table of Contents:

1 Introduction and Significance

1920 to 1933 was a special period in the history of the United States, during which Prohibition – a national ban on the production, importation, sale and transportation of alcoholic beverages – took effect on not just individuals, but an entire economy. The conventional debate over Prohibition focuses on whether Prohibition is a success or failure: while historians like Richard Hofstadter and Andrew Sinclair criticized the policy in a "merciless" manner (Tyrrell 1405), others, typically more contemporary historians such as Wayne Hall and Jack Blocker Jr., took a milder stance and viewed Prohibition under the criteria of a public health innovation (Blocker 233) or one of the Progressive reforms (Burnham 51), concluding at a less extreme position on the success-failure continuum.

Inspired by the multitude of perspectives and criteria used to view and judge Prohibition, this essay aims to extend the debate from primarily evaluating Prohibition's effectiveness from a modern historian's perspective. Instead, this essay hopes to examine how effective Prohibition turned out to be when compared to what its contemporary supporters expected to gain from the policy. Moreover, this essay will focus on the first five-six years of Prohibition – 1920 to 1925 – in order to eliminate the argument that a changing historical and socio-economic context, like the build-up to the Great Depression, is accountable for Prohibition's failure (Blocker 233), and wholly focus on the policy's effectiveness in and of itself.

This essay aims to answer the research question by investigating five aspects of Prohibition – alcohol consumption, economic well-being, businesses & productivity, liquor taxation, and crime and illegal markets. These are considered to be the most significant economic outcomes of Prohibition in the given time frame. After discovering that many of Prohibition's supporters had rational and less absolute expectations on the policy than conventional beliefs, and that the economic outcomes of the policy in the first few years were actually reasonably positive, this essay argues that Prohibition's impacts were more expected than unexpected from the perspective of its supporters.

The investigation has worthiness as it views an often-studied topic from a slightly different perspective – namely, did Prohibition fulfill what its contemporary supporters expected it to fulfill, rather than did it fulfill the criteria held by more modern historians or audiences. Moreover, its conclusions may clarify some misconceptions of Prohibition as a complete policy failure. Finally, the investigation has contemporary application to policymaking, especially on areas like public health, by emphasizing the realistic difficulties of achieving the "ideal" and the importance of having more reasoned (and usually less absolute) expectations.

2 Methodology

To complete this investigation, the author mainly reviewed articles from academic journals, such as the American Journal of Public Health and Journal of Social History. One encyclopedia-like book, "Prohibition – Its Economic and Industrial Aspects", has been used due to its compilation of and continuous references to extensive amounts of empirical data (collected first-hand by the author through questionnaires, visits, interviews, etc.) on many aspects of Prohibition, as well as its suitability with the time frame. The objectivity and factual basis of this source is further strengthened by the initial purpose of collecting findings – it is taken "solely as a matter of research", with "an insistence upon impartial investigation and the presentation of comprehensive and authoritative data" (Feldman preface). However, a limitation of this source, common across all studies using a questionnaire-based methodology, is the author's potential biases that could affect the framing of the questions, the subjects and the focus of the research, etc. Consequently, this source will be used in cross-examination with other sources of data to ensure validity of this investigation.

Moreover, to fully understand the expectations of Prohibition's supporters, some primary sources were reviewed via online libraries and repositories of universities, such as Ohio State University and Brown University, which are generally considered to be objective and impartial third parties. The primary sources reviewed include propaganda produced by the Anti-Saloon League (ASL) to seek support for Prohibition, as well as speeches and writings made public at the time. These sources certainly provide valuable, first-hand information, particularly considering that many pro-Prohibition arguments were in fact focused on the potential economic

impacts and thus fitting to this investigation, though the essay will view and analyze these contents critically, considering that many were produced to seek popularity and support and hence may be biased and did not fully reflect the true expectations.

3 Investigation

3.1 Alcohol Consumption

While the general impression amongst many is that Prohibition failed to achieve its primary goal of limiting the consumption of alcohol, a closer examination of what its supporters actually expected hugely closes the gap between expectations and outcome, suggesting that Prohibition, in its early years, did fulfill its job reasonably. For all liquor, consumption dropped to approximately 30% of Pre-Prohibition levels in the early 1920s (Tyrrell 1406). Between 1916 and 1925, the number of distilleries in the US was reduced by 85%, with most of the remaining distilleries producing industrial alcohol; 1300 breweries producing beer existed in 1916, but none remained 10 years later (Blocker 236). Various sources have minor differences in the exact numerical figures of the consumption drop, though none differed significantly from the aforementioned numbers and are considered to be normal given the many possible sources of minor discrepancies in practically gathering data for such a large historical event. Some discrepancies are also present between different types of alcoholic beverages – for example, beer consumption "dropped precipitously" while distilled spirits "made a dramatic comeback" (though certainly not nearing the Pre-Prohibition levels) (Blocker 237) - but again, these differences did not steer the overall drop in a different direction.

The around-70% drop in alcohol consumption seems unsatisfying for those who thought Prohibition should completely eliminate alcohol consumption. However, some historians have claimed that Prohibition's supporters understood that "the interval between achievement of the amendment and their eventual object" to be "lengthy", and that the policy is more of an "educative weapon" (Tyrrell 1407) that would take affect mostly on future generations than a tool that immediately eliminates alcohol consumption. Similar conclusions can even be drawn from works made and published by the Anti-Saloon League, a main proponent of Prohibition. These works often criticized how saloon owners are looking to "corrupt American youth into the

dissolute life of drink" (Ohio State University, n.d.), which implies that the Prohibition supporters did understand, at least to some extent, the delayed, long-term effects of Prohibition on future generations' alcohol consumption. With that expectation, it is likely that the around-70% drop in the short-term is more satisfactory.

Some authors and historians, who take a different stance on how alcohol consumption changed following Prohibition, often uses the arguments of conspicuous spending and a "forbidden fruit effect" (Miron 744). However, as Miron himself concedes, these counterarguments are backed merely by anecdotal evidence. Moreover, even with some middle- and upper-class men flaunting their power and wealth by drinking alcohol under Prohibition, with the majority of the population – the working class – seeing a reduction in consumption (Feldman 124), the overall effect Prohibition had on alcohol consumption is reasonably adherent to its supporters' expectation, which is a moderate drop in the short term.

3.2 Individual Economic Well-being

One rationale behind the Drys' firm stance towards reducing alcohol consumption is that alcohol's addictiveness, which the Board of Temperance, Prohibition and Public Morals of the Methodist Episcopal Church (1) - one major organization and leading proponent of Prohibition - claims to be so strong that 3 out of 10 drinkers become addicts, poses a huge threat to the economic well-being of drinkers. As Robert G. Ingersoll (1), a Dry, argues for Prohibition: "it (alcohol) covers the land with idleness, poverty"; it makes "all of them (everyone) paupers and beggars". Consequently, it can be inferred that Prohibition hoped to reduce the proportion of income drinkers spent on alcohol, at least to the extent where their disposable incomes are sufficient to sustain their livelihoods.

Judging from that criteria, Prohibition did fulfill these expectations in its early years. As Feldman (126) writes, "Those who break the law – what do they amount to in the view of Consumptionism? For mostly those who can afford bootleggers and roadhouses are already provided to the point of saturation with furs and motor cars and entertainments". Only the "fashionable and commercial classes" still had access to alcohol with ease (Feldman, 126); the average, low-income worker did reduce drinking, and consequently reduced their spending on

alcohol (Burnham 64). Postal savings, a good illustration about the amounts of deposits made by relatively poorer workers, increased from $111.82 in 1914 to $336.03 in 1926; the average number of depositors increased by more than 26,000,000 in the period 1922-1926, compared to just a decade ago (Feldman 139). While some may argue that these sources of data may overlook the consumption from bootlegging and illegal markets (which is true that official data does not account for bootlegging, but the effects are limited, as elaborated on in Section 3.5), the increase in both the average number of depositors and the amount of deposits fundamentally verifies that overall, Prohibition's net effect on reducing spending on alcohol and encouraging savings is positive, even admitting that some other factors, such as increased total income resulting from macro-economic growth, may also partially contribute to the trend. Consequently, Prohibition did reasonably achieve the expected effects on improving economic well-being of the average worker.

3.3 Businesses and Productivity

The initial supporters of Prohibition knew that they needed "the active aid of a part of the business community" (Burnham 53), and thus grounded some of their arguments for Prohibition on the benefits of a sober worker to businesses. In numerous works by Prohibition supporters, the common argument, and inferably the expectations of the supporters, is that "the drinking man cannot do the finest work", and that Prohibition will enhance productivity of workers. This expectation, corresponding to the reduction of alcohol consumption, faced few deterrents and was generally agreed to be true amongst historians. As Feldman (229) puts it, the first few years saw "a most amazing increase in the productivity of the wage-earner, embracing almost every industry in the country". Comparing 1919 to 1925, workers in the rubber tire industry increased their efficiencies by 139%, 100% in the petrol refining industry, 59% in iron and steel, and so on (Feldman 229).

What turned out to be less expected, however, was the impacts on various industries. First and foremost is the liquor industry itself. While many of the supporters of Prohibition proclaimed in their propaganda and speeches that their goal is to completely wipe out an industry, their actual, and more realistic, expectations were more moderate. In fact, there exists a discrepancy between "what the voters thought they were voting for and what they got" - for

example, the definition of "intoxicating", which in itself is subjective, turned out to be much stricter than most had expected (Blocker 238). Prohibition virtually eliminated an entire industry (Blocker 236), which, though was supposedly the ideal result, in reality proved to be far more striking than what many supporters expected just a decade earlier.

On the other hand, the impacts alcohol Prohibition had on other industries were often overlooked in the supporters' arguments, presumably and probably because there were too many other possibilities for drinkers who, ideally, would give up their drinking habits. Nonetheless, this essay attempts to evaluate the impacts by classifying relevant industries into two: industries producing substitute beverages to alcohol, and other, more general consumer goods industries. The former industries, such as milk, root beer, orange juice and Coca-Cola saw increases in demand by nearly 50% (Feldman 75), which, from an economic perspective, Prohibition's effect on alcohol as a substitute good likely contributed to. The latter, such as ice cream (80% increase from 1920 to 1925), movies and automobiles, also saw increases in consumption (Feldman 88, 149), though no direct relationship could be empirically established between Prohibition and these changes. One alternative logical explanation, provided by Wayne Hall (1166), pointed out that the increased spending on household goods "reflected increased efficiencies in production" and was more attributable to the economic boom of the 1920s, having little to do with Prohibition. Yet, despite the lack of clear links between Prohibition and one specific industry, a general chain of logic agreed by most historians can be deduced: the average worker spends less on saloons, and while some of that extra income becomes savings, a proportion of it becomes spending on another product, which increases planned expenditures overall in the economy, whichever industry it is (Feldman 93, 159). However, this, due to the innate complexity of the economy's multitude of industries, was more of a "side effect" of Prohibition, rather than one of the policymakers' and supporters' expectations before the policy took effect.

3.4 Liquor Taxes

With Prohibition targeting such a massive industry, it is inevitable that a socio-economic analysis will consider one main opportunity cost of the policy – the reduction in liquor tax revenue. The outcome was commonly accepted by historians – there was a drop in alcohol tax

revenues (Boudreaux 16). However, whether or not the supporters expected the drop is somewhat more controversial.

While the change in liquor tax revenue is indeed significant comparing pre- and during Prohibition levels, it was amongst one of the rational expectations its supporters had. By examining what made Prohibition economically viable in the first place, the income tax, which was first put in place in 1914, proved itself to be an effective substitute source of government tax revenue for the liquor taxes, which once constituted "for more than two-thirds of federal revenues" together with customs duties (Boudreaux 16). By fall 1917, income taxes were the chief source of tax revenues, and the revenue from alcohol taxes were "trivial" in comparison (Boudreaux 16), and this laid the foundation for the Congress' passage of the 18th amendment. In other words, the supporters of Prohibition, at least the Congress, were cognizant of the fact that liquor tax revenues will see a drop following Prohibition.

Examining the ASL's opinions towards the loss in tax revenue, one of its common complaints about a deterrent to Prohibition was the country's benefits from liquor consumption. As an example, the cartoonist Frank Beard who prominently supported the ASL and Prohibition captioned in one of his cartoons named "Uncle Sam Benefits" that the government "makes grist for his own mill" (Beard 1, see Appendix), namely by supporting the saloon owners would the government benefit from more liquor tax revenues. This criticism towards the government's inaction, a common argument for the Prohibitionists, implies that they did recognize the objective truth that Prohibition would inevitably hurt tax revenues for the government. Hence, the reduction in alcohol tax revenues were fully anticipated by Prohibition supporters.

3.5 Crime and Illegal Markets

The supporters of Prohibition generally did not expect crime increasing and bootlegging booming following the ratification of the 18th Amendment. The fundamentally unlawful and malicious nature of these negative consequences would simply be too much to make in a concession that even if a very few supporters did think about it, there exists little, if any, clear record of it; those who did foresee violence and illegal selling of alcohol in secrecy were usually

those who stood most firmly against Prohibition. The question, then, is a matter of extent – how far did reality, in terms of crime and bootlegging, turn out beyond the supporters' expectations?

Research on Alcohol Prohibition's effects on crime often utilizes the homicide rate as a statistical reference. Indeed, observable trends can be drawn on changes in the homicide rate before, during and after Prohibition (see Appendix). Comparing 1920 and 1925, the time frame of this essay's focus, there is an increase of around 1.5 people in the homicide rate per 100,000 people (O'Neill 1), which is relatively significant by itself. Yet, if we observe the historical trend before 1920, comparing the 10-year period from 1910 to 1919, there is an increase of 2.6 people in the rate per 100,000 people (O'Neill 1); the average yearly increases for the two periods are 0.25 people and 0.26 people respectively, almost identical. As Tyrrell and other historians argue, factors contributing to a trend of growing crime, including "political corruption, gang warfare and the existence of crime syndicates", was already present in the 1910s, and that "the activity of the 1920s represented not something new but continuity in the consolidation of these forces" (Tyrrell, 1406), not an unprecedented new trend caused by Prohibition.

It is challenged by some historians and economists, such as Jeffrey Miron, that if the increase in crime during the Prohibition era is a result of historical trends rather than Prohibition itself, then the sudden drop from 1933 onwards – which corresponds to the repeal of the 18th Amendment – is inexplicable. This reasoning is certainly logical, but it overlooks the changes in the obedience towards law enforcement within the larger "Prohibition era". There was "growing disobedience toward the law and law enforcement", becoming rampant after around 1925 – the year when "in New York City alone there were anywhere from 30,000 to 100,000 speakeasy clubs" (National Archives 1). With more disobedience comes more violations of the law, frequently in the form of violence and crime; consequently, from 1925 to 1933 Prohibition was indeed inseparable from the increase in crime as people no longer adhered to the policy, which also explains why when the 18th Amendment was repealed the level of crime largely dropped. Yet, on the other hand, because obedience was relatively high and violations of the law were significantly less common when Prohibition was initially introduced, it is defended that the increase in crime from 1920 to 1925, the time frame of this investigation, had less to do with the law disobedience from Prohibition, and was in fact more a result of the broader historical trend.

With alcohol legally banned, the primary source of drinking and consequently the alcohol-related crimes is bootlegging. The lack of official data on bootlegging, due to its (well, at least supposedly) secret nature, only allows for a qualitative judgment rather than a quantitative analysis on how the illegal market affect levels of crime. Two main arguments are made based on existing evidence and logical deduction. First, as mentioned in Section 3.2, those who were capable of affording bootlegged alcohol were middle- and upper-class men usually, which constituted a minor part of the population; the common American citizen, at least in the initial years of Prohibition, did not have easy access to alcohol, and consequently the supposed increase in the level of crime due to bootlegging's illegal and criminal nature would at least be largely limited. Second, the initial years from 1920 to 1925 saw the strictest enforcement of the law, and naturally the lowest levels of bootlegging. Anecdotal evidence told that Torrio, one influential figure in Chicago's syndicates who immediately hoped to take advantage of the bootlegging profits, was soon arrested as soon as Dever was elected Chicago's mayor in 1923, who ordered to "prosecute the big violators instead of the 'small fry'" (Landesco 120). The level of crime "depends naturally upon the enforcement of the law" (Hopkins 43). Altogether, though not non-existent, crime associated with the new bootlegging businesses was largely limited in Prohibition's early years.

To conclude this section, Prohibition's impacts on crime and bootlegging were generally unexpected to its supporters, because any increase in alcohol-associated crime or bootlegging was not expected nor desirable for them. Yet, based on the time frame of 1920-1925, several factors, both external (the historical trend of increasing crime rate) and internal (the limited buyers of bootlegging and initial strength in law enforcement) to Prohibition, have limited its effects on crime and illegal markets.

4 Conclusion and Evaluation

This essay discusses whether Prohibition's economic outcomes between 1920 and 1925 were expected or not by its supporters, with regards to five aspects: alcohol consumption, economic well-being, businesses & productivity, liquor taxation, and crime & illegal markets.

For consumption, the around-70% drop for all alcohol, with some variations for different types, is generally expected by supporters who did not expect complete elimination in the short-term. As expected, the economic well-being of drinkers, especially low-income earners, were improved by Prohibition as less spending was dedicated to alcohol. Similarly, as workers drank less, the "sober worker" businesses hoped for arrived, though on the industry-level, the waxing of some industries and waning of others were simply too diverse to be predictable and were more of a "side-effect". The drop in liquor taxes was significant but expected by supporters whose arguments were aided by the income tax as a new, alternative source of government revenue. Finally, the increase in crime and bootlegging was certainly unexpected, though answers to questions like how much was Prohibition accountable for, and how significant were the increases, are weakened by other factors.

Collectively, there is not a definite, black-or-white answer to Prohibition's expectedness, not to mention the unsurmountable difficulty in fully and flawlessly understanding what a nation of people from almost one century ago believed and expected. However, the time frame, focused on the early years of Prohibition, allowed this essay to shift its stance towards the "expected" side more on the continuum – due to the stronger enforcement of the law before 1925, there was a larger decrease in consumption and consequently increased disposable incomes and productivity, as well as relatively less crime and bootlegging, all of which are favorable to and in line with the supporters' expectations. Had the time frame been changed to 1925 to 1933, it is almost uncontestable that Prohibition failed miserably in achieving the expectations of its supporters, though other socio-economic and contextual factors, like the Great Depression, comes into play too.

One other key reason that lies behind this essay's overall stance that the economic outcomes were more expected than unexpected is the supporters themselves having more moderate and reasonable expectations than what conventional wisdom may portray them as having. The most eminent example is that (at least some of) the supporters, instead of believing that Prohibition will eliminate all consumption of alcohol immediately, realized the inertia due to addictiveness in the short-term while seeing the educational value prospectively. In this regard, the primary sources were valuable despite their propaganda-like nature in revealing the underlying

assumptions of the supporters. Again, as Hall puts it well, “if we judged all public health policies against such a utopian standard, then all would be failures” (Hall 1166).

Admittedly, though this essay gives its best attempt in answering the research question, again, the differences in beliefs amongst a wide range of “supporters”, as well as the practical difficulty of fully understanding people’s expectations, limit this essay’s comprehensiveness and thoroughness in reconstructing such a large (on many dimensions) historical event and making arguments. For one idea, a further breakdown of the general term “supporters” into groups with slightly different interests and expectations may add depth and specificity to the research. Nonetheless, it is hoped that this essay may bring new perspectives and insights to research on policymaking, whether on Prohibition or more contemporary topics.

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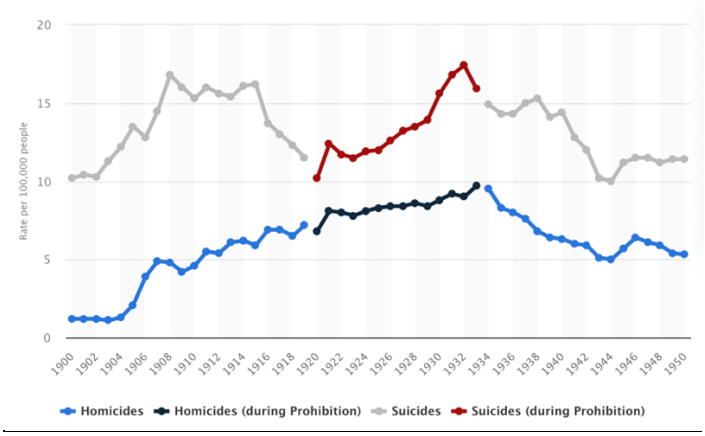
6 Appendix

UNCLE SAM MAKES GRIST FOR HIS OWN MILL.

Cartoonist Frank Beard's Dry Propaganda titled "Uncle Sam Benefits" (Beard 1)



The Homicide & Suicide Rates Before, During and After Prohibition (O'Neill, 1)