

## Alcohol Use, Human Capital, and Wages

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Alcohol is the most widely consumed drug among American youth. Alcohol abuse, both by adults and by youth, has been linked to a number of negative social consequences, including crime, traffic accidents, and increased health care expenditures. Over the past 20 years, economists have examined the potential impact of alcohol use and abuse on labor productivity, hours of work, and wages. The results of this work are largely mixed. Light to moderate alcohol users tend to have higher earnings, but alcohol-dependent individuals usually earn less. There is little to no effect of alcohol use on hours worked, but alcohol users complete significantly fewer years of education than nonusers. These findings have caused many to conclude that the real effect of alcohol use on productivity may be indirect and channeled through alcohol's effects on the amount and quality of education a person receives. No previous study, however, has explicitly tested this conclusion.



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This paper develops and estimates a theoretical model that explicitly tests the assumption that the effect of alcohol use on labor productivity is channeled through alcohol's effects on the amount and quality of education a person receives. The results suggest that moderate alcohol use has a very small beneficial effect on the quality of education a person receives, and therefore may actually increase a person's wage. Heavier drinking, however, reduces this gain slightly. Based on these results, alcohol use does not appear to adversely affect labor productivity through its effect on either the quantity or quality of education. These findings directly contradict the previous literature's conclusions and suggest a need for researchers to identify other mechanisms through which alcohol may affect labor productivity.

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