
IAS Factsheet

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Social Costs of Alcohol

Many discussions of alcohol problems contain estimates of their economic costs to society. These include costs such as those to the health service of treating alcohol-related disease and to the criminal justice system of dealing with alcohol related crime and disorder.

In Europe, the social costs of alcohol are normally estimated to amount to between 1% and 3% of GDP. For the European Union in 1998, the social costs of alcohol have been estimated at between \$65 billion – \$195,000 billion at 1990 prices. These figures are comparable to, or even exceed, government expenditures on social security and welfare, and approximate to 25% of health service expenditure.¹

However, this whole area of enquiry is complex and difficult. There are uncertainties and disagreements about what should be included as a cost and how costs are to be measured. There are a number of different methodologies that can be employed in estimating social costs, and these can have different implications for policy. For example, it is easy to misunderstand all social cost estimates as representing the amount of money that would be saved if there were no alcohol problems. In reality, not all costs are avoidable, and the avoidance or suppression of one activity might result in the adoption of alternative activities which generate costs of their own.

A basic question is, costs to whom? In relation to public policy, the costs falling exclusively on the alcohol consumers themselves are normally deemed irrelevant, the only ones that matter being the external costs i.e those which are transferred to third parties, - other individuals and businesses and the public purse.

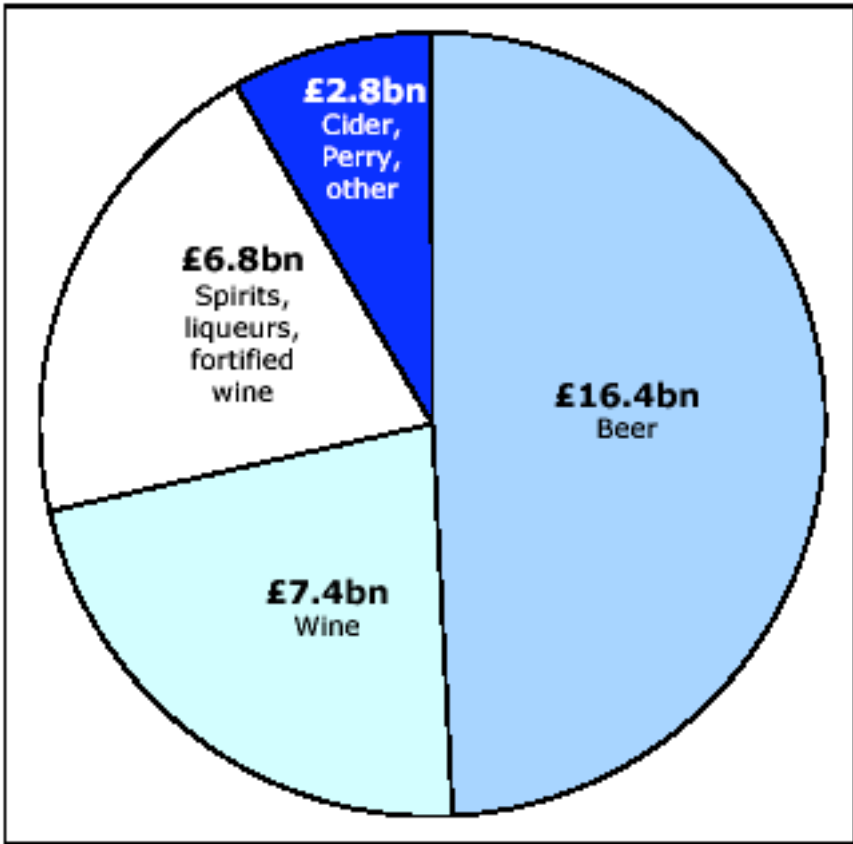
This is because (in a free market and non-paternalistic society) it is only the external costs that are seen as justifying government intervention as a means of correcting market failure. For example, it is the external costs of alcohol that provide the social welfare justification for alcohol excise duties, for without this special tax, the consumer would escape making any direct contribution to the costs that alcohol consumption imposes on society arising from the need to provide policing and health services that would otherwise be unnecessary, costs not otherwise covered by the price of the product charged across the counter to the individual consumer.

The social costs of alcohol also need to be considered in relation to the economic benefits of alcohol consumption such as the provision of employment and tax revenues. These benefits may be more straightforward to calculate than some of the costs. However, in relation to the ultimate questions to which answers are often sought concerning whether in net terms society is better or worse off economically because of alcohol consumption, there is room for debate about both sides of the equation. If some of the costs can be challenged on the grounds, for example, that if people were not drinking, or not drinking too much, they would be doing something else that could be equally harmful, by the same token, if people were not spending money on alcohol they would be spending it on other goods or services that would also provide employment and tax revenues.

Economic Benefits

The total value of the UK alcoholic drinks market exceeds £30 billion.

UK ALCOHOLIC DRINKS MARKET BY VALUE, 2000



Source: UK Drinks Market (2001)

In 2001, £36,636,000,000 was spent on alcohol, equivalent to 5.8% of all consumer expenditure.

UK consumers spend more of their disposable income on alcohol than on, for example, personal goods and services, fuel and power or tobacco.

Britons spend around £17 billion in pubs each year. In 2002, the nightclub market was worth £1.7 billion.²

In comparison, Britons spent £7.2 billion on activities such as going to the cinema, theatre, museum and bingo combined. £7.4 billion was spent on gambling in 2002.

Source: Focus on Consumer Price Indices, Office for National Statistics & Economic Trends, ONS, 2007

Total household expenditure on alcohol, 1980 to 2006³

United Kingdom	£ million at current prices					
	Beer	Spirits	Wine	Total household expenditure on alcohol ¹	Total household final consumption expenditure	Expenditure on alcohol as percentage of total household final consumption expenditure
1980	5,320	2,720	1,913	9,953	132,128	7.5
1981	5,971	2,908	2,274	11,153	146,508	7.6
1982	6,450	3,003	2,550	12,003	160,266	7.5
1983	7,138	3,265	2,867	13,270	175,908	7.5
1984	8,085	3,471	3,111	14,667	188,586	7.8
1985	8,762	3,831	3,404	15,997	205,737	7.8
1986	9,248	3,947	3,555	16,750	227,812	7.4
1987	9,886	4,145	3,773	17,804	250,274	7.1
1988	10,562	4,550	3,894	19,006	282,777	6.7
1989	11,216	4,611	4,117	19,944	310,168	6.4
1990	12,345	4,985	4,471	21,801	336,265	6.5
1991	13,274	5,296	4,848	23,418	358,107	6.5
1992	13,432	5,243	5,311	23,986	377,780	6.3
1993	13,605	5,524	5,650	24,779	399,875	6.2
1994	14,507	5,820	5,879	26,206	419,825	6.2
1995	14,842	5,284	6,529	26,655	441,085	6.0
1996	15,713	5,460	7,980	29,153	472,711	6.2
1997	16,703	5,911	8,168	30,782	501,290	6.1
1998	17,029	6,062	9,386	32,477	534,153	6.1
1999	17,230	6,769	9,667	33,666	567,994	5.9
2000	17,062	6,795	10,782	34,639	600,826	5.8
2001	17,342	6,971	11,690	36,003	632,496	5.7
2002	18,077	7,431	12,766	38,274	664,562	5.8
2003	18,878	7,738	12,240	38,856	697,160	5.6
2004	18,928	7,939	13,463	40,329	732,531	5.5
2005	18,936	8,165	13,820	40,921	760,032	5.4
2006	19,128	7,876	14,557	41,561	793,322	5.2

1. Excludes legitimate cross-border shopping which is included in tourists' expenditure

2. Total household expenditure on alcohol may not sum due to rounding

3. 'Spirits' includes spirits and liqueurs, 'Wine' includes grape and fruit wines, alcopops, cider and perry, 'Beer' includes beers, ales, lagers, porters, shandies and low alcohol beverages

4. In 2006, the data for expenditure on alcohol in 2003, 2004 and 2005 were revised by ONS. The data for total final household consumption were also revised for every year going back to 1948 by ONS mainly for benchmarking retail goods derived from the Annual Business Enquiry, 2004

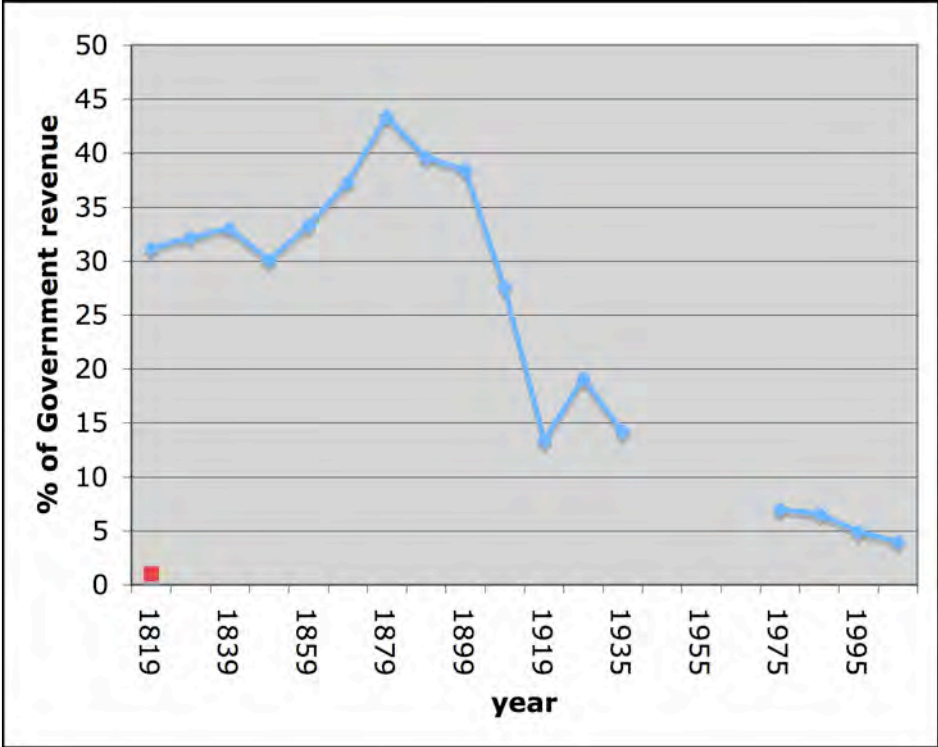
Source: Consumer Trends (Table ALC.CS: codes CCEL. CCSA. CCSB. CCRY; table OGS.CS: code ABJQ) ONS 2007

Revenue from Alcohol Taxes

Alcoholic drink is subject to both excise duty and VAT. Revenue to the Exchequer for alcohol is substantial and has been increasing for most of the last 30 years, though there was a small decrease in 2005/6.

However, as a proportion of total Government revenues the revenue from alcoholic drink has declined hugely as other forms of taxation have become more important. As can be seen from the graph, for a period in the 1860s alcohol taxes provided over 40% of total government tax revenue. Currently, alcohol provides less than 5% of total tax revenue. Receipts from alcohol have also declined in relation to GDP. (See Appendix)

Percentage of Government revenue derived from alcohol taxes⁴



Note: VAT was introduced in April 1973
 All alcohol taxes are, of course, paid by the drinker

Excise Duty Revenue from alcohol drink, 1980/81 to 2007/08⁵

£ million

	Estimated total Receipts on Alcoholic drinks	Spirits Duty receipts	Beer Duty receipts	Wine Duty receipts	Cider Duty receipts	Total Alcohol Duty receipts
1980/81	4080	1153	1048	390	13	2604
1981/82	4760	1222	1356	505	18	3101
1982/83	4810	965	1526	506	24	3021
1983/84	6060	1702	1679	623	32	4036
1984/85	5940	1242	1825	652	45	3764
1985/86	6580	1503	1957	687	50	4197
1986/87	6670	1465	1969	697	53	4184
1987/88	6990	1558	2001	733	51	4343
1988/89	7340	1576	2105	784	53	4518
1989/90	7410	1514	2074	791	59	4438
1990/91	8110	1703	2229	855	69	4856
1991/92	8560	1742	2325	925	74	5066
1992/93	8680	1661	2378	981	88	5108
1993/94	8860	1707	2282	1082	101	5172
1994/95	9450	1776	2534	1139	112	5561
1995/96	9560	1653	2642	1187	134	5616
1996/97	9840	1593	2629	1274	135	5631
1997/98	10160	1546	2696	1363	137	5742
1998/99	10590	1643	2702	1481	140	5966
1999/00	11250	1804	2813	1657	155	6429
2000/01	11640	1842	2850	1814	158	6664
2001/02	12230	1919	2899	1982	155	6955
2002/03	12920	2273	2935	1936	153	7297
2003/04	13260	2362	3044	2006	153	7565
2004/05		2385	3101	2233	157	7876
2005/06		2309	3076	2308	168	7861
2006/07		2256	3072	2385	200	7913
2007/08		2374	3067	2641	220	8302

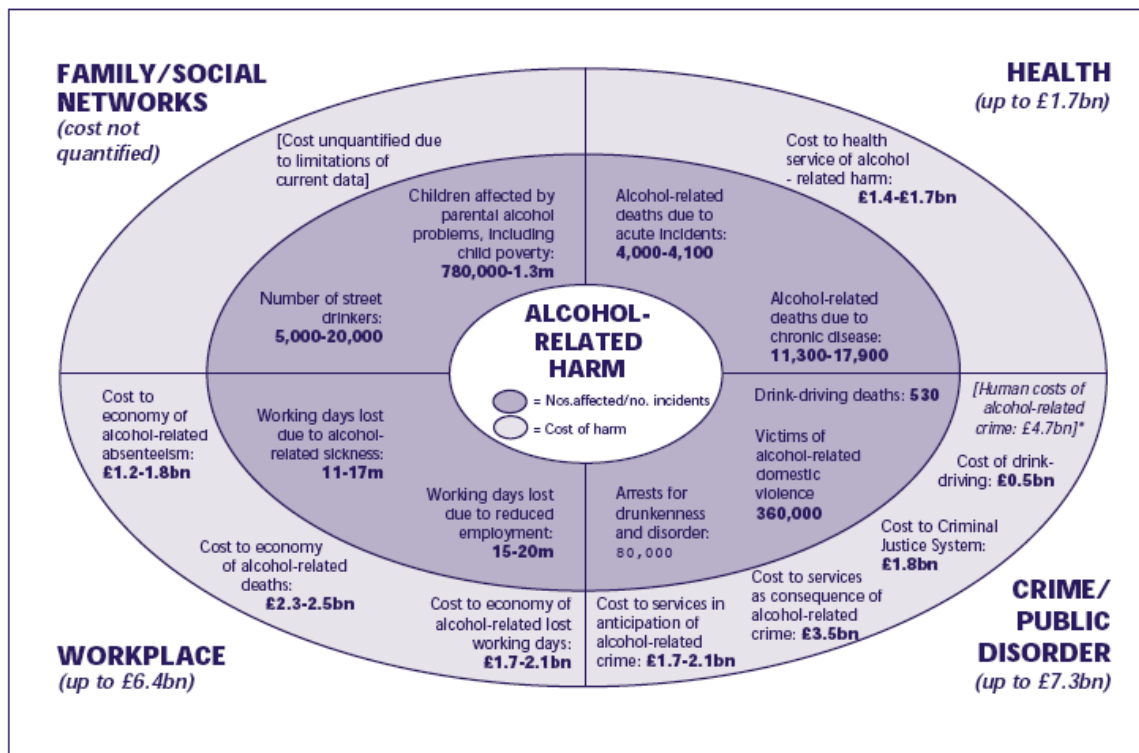
Note - Estimated total receipts on alcoholic drinks includes VAT

It is stated by the Cabinet Office Strategy Unit that the alcoholic drinks industry generates approximately one million jobs across the whole supply chain, from farming through distribution to pubs, bars and restaurants. It is also stated that one in four of all new jobs created are in tourism-related industries, many of them being in hospitality and leisure.⁶

The British Beer and Pub Association stated that there are 1,396,000 people employed in hotels, restaurants, pubs and clubs.⁷ However, this includes an unknown number of casual workers, so the number of full-time jobs could be greatly less than this.

Against these benefits, the Strategy Unit⁸ calculated that for England and Wales the costs of some but not all adverse consequences of alcohol consumption to be in the region of £20 billion.

The costs of alcohol-related harm⁹



The estimate of social costs above was calculated in 2004. In 2008 an updated estimate was made of the costs of alcohol harm to the NHS in England. The total figure was £2.7 billion at 2006/7 prices.¹⁰ This is broken down as follows:

	Cost Estimate (£m)
Hospital inpatient & day visits	
- Directly attributable to alcohol misuse	167.6
- Partly attributable to alcohol misuse	1,022.7
Hospital outpatient visits	272.4
Accident and emergency visits	645.7
Ambulance services	372.4
NHS GP consultations	102.1
Practice nurse consultations	9.5
Laboratory tests	N/A
Dependency prescribed drugs	2.1
Specialist treatment services	55.3
Other health care costs	54.4
Total	2,704.1

The key factors behind the increased estimate include:

- Significant increases in estimated alcohol-related admissions (including those that are indirectly linked to alcohol consumption)
- Higher Office for National Statistics (ONS) estimated of the proportion of people drinking at levels of increasing risk and at levels of higher risk. The new estimated take account of larger glass sizes and increased average ABVs.

- Inflation of around 22% between 2001/2 and 2006/7, as implied by the Hospital & Community Health Services (HCHS) pay and prices index.

The Alcohol Needs Assessment Research Report, published in November 2006, identified that £217 million was spent in 2003-4 by Primary Care Trusts and local authorities to support alcohol treatment.¹¹

Annual societal cost of alcohol misuse in Scotland at 2001/02 prices.¹²

Health service resource use associated with:	Annual resource use	Annual cost (£ million)
GP consultations	211,516	3.6
GP-prescribed drugs	6% of drugs prescribed by GPs for substance dependency	0.2
Consultations with practice nurses, district nurses and health visitors	No information currently recorded. Unable to quantify.	
Laboratory tests	147,256	1.8
Hospitalisation days	257,775	54.3
Accident and emergency attendances	187,951	9.6
Outpatient visits	93,999	8.1
Day hospital attendances	44,800	3.1
Community psychiatric team visits	8% of total community psychiatric team expenditure	4.0
Ambulance journeys	64,382	9.1
Health promotion/prevention by Health Education Board for Scotland (HEBS) Scottish executive and health boards	HEBS, Drinkwise, Alcohol Development Officers	1.2
Health board expenditure to alcohol-related voluntary organisations	Funding to 25 organisations	0.6
Total for NHS Scotland		95.6
Social work services and associated organisations resource use:		
Children and Families	24% of total expenditure on children's and families' social work	71.8
Community Care	20% of social work expenditure on the substance misuse client group	2.2
Criminal Justice social work	27% of total expenditure on criminal justice	11.1
Children's Hearing System	6% of expenditure	0.8
Voluntary and private sector alcohol services	Expenditure directly on alcohol misuse unavailable	
Total for social work services		85.9

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Criminal justice system and emergency services resource use associated with:	Annual resource use	Annual cost (£ million)
Custodial sentences	565,172 days in prison	46.1
Court time and legal costs for prosecutions	49,336 offences proceeded against	19.8
Property damage	Unable to quantify	
Police time	26% of all expenditure	201.8
Fire services time on alcohol-related road accidents	Unable to quantify	
Fire service time on alcohol-related fires	Unable to quantify	
Drink-driving campaign	£141,000 on the drink driving campaign and £70,000 to be spent on research	0.2
Total for criminal justice system and emergency services		267.9
Wider economic costs due to :	Annual resource use	Annual cost (£million)
Inability to work (unemployment)	3,536 individuals	84.0
Working days lost (absenteeism)	1,164,344 days absent from work	119.0
Working days lost caring for those with alcohol problems	Unable to quantify	
Premature mortality in the working population (discounted)	1,641 deaths resulting in 12,546 working years of life lost	201.5
Reduced productivity in the workplace	Unable to quantify	
Total wider economic costs		404.5
Human costs		
Premature mortality in the non-working population (discounted)	15,457 non-working life years lost	216.7
Morbidity	Unable to quantify the cost of reduced quality of life	
Total human costs		216.7
Total annual societal cost		1070.6

In 2008 the Scottish Executive published an updated estimate of the social costs presented in 2006/7 values. The estimated costs below are described as not exhaustive and as only indicative of the scale and scope of the effects of alcohol in Scotland. Error! Bookmark not defined.

Summary of costs of alcohol misuse 2006/7

Resource Category	Cost 2006/7 (£million)
NHS Scotland	405
Social Work Services	170
Criminal Justice & Fire Service	385
Wider economic costs	820
Human/social costs	470
Total	2250

Summary of NHS costs attributable to alcohol misuse 2006/7

Resource Category	Cost 2006/7 (£million)
GP/Practice consultations	12
GP prescribed drugs	0.77
GP initiated lab tests	0.84
Hospitalisation days (acute)	146
Hospitalisation days (psychiatric)	89
A & E attendances	32
Outpatient appts	64
Community psychiatric service	13
Day hospital	3
Ambulance	32
Health improvement/specific funding	13
Total	405

Summary of social work cost attributable to alcohol misuse 2006/7

Resource Category		Cost 2006/7 (£million)
Children's hearings (SCRA)		2
Social work:		
	Children's hearings	0.3
	Children & families	153
	Substance misuse	11
	Community care	2
	Criminal justice	33
Total		169

Summary of criminal justice & emergency services cost attributable to alcohol misuse 2006/7

Resource Category	Cost 2006/7 (£million)
Police time	288
Court and legal costs associated with <i>prosecutions</i>	19
Custodial sentences	78
Fire service	6
Total	385

Summary of 'economic' cost attributable to alcohol misuse 2006/7

Resource Category	Cost 2006/7 (£million)
Presenteeism	203
Absenteeism	190
Unemployment	96
Premature death	328
Total	818

Summary of human cost attributable to alcohol misuse 2006/7

Resource Category	Cost 2006/7 (£million)
Consequences of crime	145
Homicide	51
Deaths in fires	23
Excess mortality	248
Total	466

Institute of Alcohol Studies
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Appendix

The Alcohol Revenue of the Exchequer by Dr. Gustavo Rinaldi of the Institute of Alcohol Studies

Figure 1 shows that the revenue¹³ at constant prices decreased in the fiscal year 2005/2006, but has been growing for most of the last thirty years. In the fiscal year 1975/1976 the exchequer had a revenue of about £2 billion and it was, in real terms, 50% bigger in the fiscal year 2005/2006.

In Figure 1 we can observe that while revenues have grown in absolute values, in relative terms, in percentage of GDP, alcohol revenues have gone down by more than 40%. If, in 1976, alcohol receipts were equivalent to about 2% of GDP (1.92%), in 2005 they were very close to 1% (1.14%) of GDP. This is more impressive if we take into account the projection of the

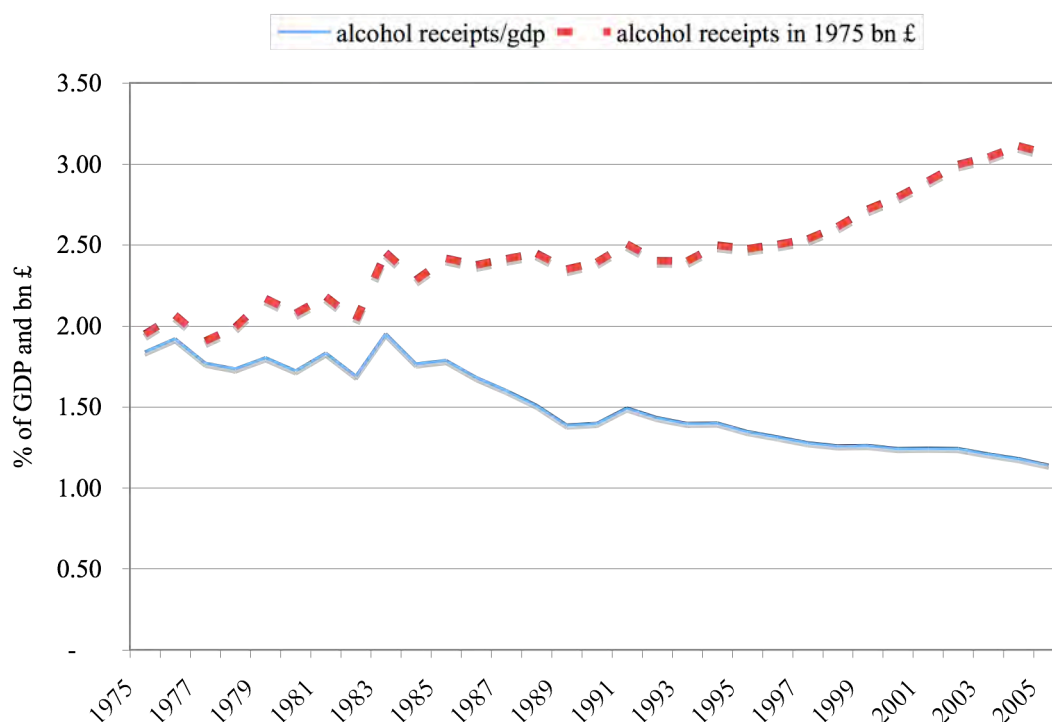


Figure 1 Alcohol receipts: in value and as a percentage of GDP

Chancellor¹⁴ for the period 2004/2005 - 2010/2011. The Chancellor forecasts that the total sum deriving from excise duties (fuel, alcohol and tobacco duties) should go down from 3.3 to 2.9 per cent of GDP. Always in relative terms, the Chancellor foresees changing national insurance contributions from 6.6 to 7.1 per cent of GDP, income tax from 10.8 to 11.8 and the so called "other taxes and royalties", which include council tax and money paid into the National Lottery Fund as well as other central government taxes, from 6.6 to 7.2 per cent of GDP. It seems that taxes on labour and houses can go up, but taxes on alcohol and fuel should represent an always smaller percentage of our income. It is not that the Chancellor has any objection to taxing people: he is just unwilling to keep constant the percentage of revenue derived from alcohol.

It could be argued that the unwillingness to tax alcohol arises from the problem of smuggling and cheap legal imports from across the channel. However, a study specifically focused on this topic (Crawford et al. 1999) shows that the effects of smuggling and personal purchases are extremely limited and tend not to change demand sensitivity to price. Similarly in the years 2001-2005 personal imports (purchases done abroad by consumers) of beer have represented 2.34% of total purchases, 1.3% in 2005 (BBPA, 2006:23). Finally, we know that in 2003, the last available figure, the value of smuggled alcoholic drinks represented just 1.4% of the value of all alcoholic drinks consumed in the UK. On these bases it is hard to argue that personal imports and smuggling are a serious limitation to the powers of the UK government in taxing alcohol. Similarly we cannot argue that EU obligations limit this power. EU obligations merely prevent Britain from taxing wine in a discriminatory way.

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Health Improvement Analytical Team – Department of Health

¹¹ Caroline Flint - Answer to Parliamentary Question 100771 – Burrowes – Alcohol Misuse – 23 November 2006

¹² Scottish Executive Health Department, *Alcohol Misuse in Scotland: Trends and Costs* by Julian F Guest and Susan Varney (Catalyst Health Economics Consultants Ltd)

¹³ (BBPA, 2006:49). Prices have been deflated using the CPI (BBPA, 2006:48). GDP from Eurostat.

¹⁴ Table C9 at page 266 of the Budget 2006