SPLITTING THE BILL: ALCOHOL'S IMPACT ON THE ECONOMY

AN INSTITUTE OF ALCOHOL STUDIES REPORT

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IAS Institute of Alcohol Studies

EXECUTIVE SUMMARY

Economic questions are central to the formation of alcohol policies, such as the setting of alcohol taxes, licensing requirements and marketing regulations. In particular, arguments around income, employment and trade are regularly used by the alcohol industry to resist measures to discourage consumption and harm. Such arguments are premised on the assumption that a successful alcohol industry is beneficial to the UK economy.

This report critically examines that assumption. It attempts to do three things:

i. Collate the basic facts about the impact of the alcohol industry on the UK economy and how this has changed in recent years. This involves reviewing both the benefits (income, jobs, exports and taxes), and, as importantly, the costs (in terms of sickness, unemployment and deaths) that it generates.

ii. Analyse how changes in alcohol consumption affect the economy – and in particular, determine whether reducing drinking is likely to have negative economic consequences.

iii. Describe the likely effect on the alcohol industry of two major recent policy developments - the raising of the minimum wage and Britain's exit from the EU.

It finds little convincing evidence to suggest that lower spending on alcohol would harm the UK economy, and indeed offers some grounds to believe that reducing drinking could be of economic benefit.

Alcohol's impact on the UK Economy: Benefits

National Income

The alcohol industry is a small, but not insignificant, part of the UK economy, contributing £46 billion a year, around 2.5% of total GDP, to national income. This income is split evenly between the production (e.g. brewers, distillers) and retail (e.g. pubs, bars, supermarkets) of alcohol. Brewing beer for the domestic market (especially the on-trade), and distilling spirits for export are particularly significant economic activities in the UK.

The UK alcohol market shrank by 5% in real terms between 2004 and 2014, with lower per capita consumption and the shift of sales from pubs, bars and clubs to supermarkets and off-licenses contributing equally to this trend. If there had been **no shift in drinking from the on-trade to the off-trade,** this would be worth £6 billion to the UK alcohol market, and would have **prevented any decline in revenue.**

Employment, Wages and Productivity

We estimate that the alcohol industry is responsible for around 770,000 jobs, around 2.5% of all UK employment, the vast majority (506,000) of which are in pubs, clubs and bars. Such on-trade jobs are typically part-time and poorly paid: only a third of employees have full-

time positions, and their **median wage of £6.82 is the second lowest of all occupations** tracked by the Office for National Statistics. By contrast, alcohol producers provide relatively few jobs (fewer than 30,000), but these tend to be better paid, with average wages exceeding £16 per hour.

These differences in wages reflect the fact that the manufacture of alcohol has higher productivity than its sale, as a result of the high mechanisation of breweries and distilleries. However, productivity appears to have fallen in both sectors since 2011.

Despite pub closures, employment has been relatively resilient: **full-time jobs in pubs rose by 7%** between 2009 and 2014, though there are fewer part-time positions, and employment in bars and clubs has fallen.

It is sometimes argued that the alcohol industry is a particularly important employer in poorer or rural areas with few alternative sources of jobs. However, there are only seven local authorities where the alcohol producers account for more than 1% of jobs, and we find **no systematic relationship between an area's prosperity and its dependence on alcohol industry employment.**

Trade

The UK has a small surplus in alcohol trade of £1.7 billion, almost entirely attributable to the export of spirits. However, this accounts for just 2% of the country's overall current account deficit.

Government Finances

The Government raises £11 billion in tax revenue from alcohol excise duty in England. A lack of reliable figures means it is difficult to compare this against the cost of alcohol to the taxpayer, which likely ranges between £8-12 billion.

Alcohol's impact on the UK Economy: Costs

Unlike most other products, the sale of alcohol also carries a number of costs to the UK economy, due to the health and social problems associated with its consumption:

- **Presenteeism:** Though quantifying its prevalence and magnitude is tricky, evidence suggests that alcohol consumption reduces people's productivity at work.
    - 28% of UK workers admit going to work hungover, and most believe this negatively affected their performance.
- **Absenteeism:** A number of studies have found that high levels of drinking, particularly in men, is linked to higher rates of absence from work.
    - An Australian study found high risk drinkers are 53% more likely to be absent from work on any given day.
    - Studies from Sweden and Norway show that a one litre increase in total per capita alcohol consumption is associated with a **13% increase in absence in men.**

- **Unemployment:** A number of studies have found that heavy drinking is associated with a higher risk of unemployment.
    - The most prominent UK study suggests that being a problem drinker is **equivalent to the effect of not having a degree** on a person's chances of finding work.
- **Premature Death:** Alcohol related deaths reduce the size of the labour force.
    - It has been estimated that **167,000 years of working life were lost** in England in 2015 due to alcohol, 16% of all working years lost.

Quantitative estimates of these costs are of limited reliability, but established government methodologies suggest they are **in the range of £8-11 billion (0.4-0.6% of GDP).**

These narrow economic costs account for a fraction of the **total societal harm** associated with alcohol – including healthcare and crime costs. **These wider costs have been estimated to range between £21-52 billion.**

The Effect of Lower Alcohol Consumption on the Economy

Reducing the harm associated with alcohol is likely to involve lower consumption. For example, the World Health Organization has recommended per capita consumption as one of the key indicators of its target of a 10% reduction in the harmful use of alcohol.

Such a prospect might cause alarm on economic grounds. However, there is **little reason to believe lower alcohol consumption would have a negative effect on the economy** – indeed, it may boost national income. Lower alcohol consumption may not have any economic impact, if people maintain their spending on alcohol by buying more expensive drinks – as we have shown, recent falls in consumption would have had no impact on industry revenue if drinkers had not shifted from pubs to supermarkets.

Yet even if spending on alcohol declines, **spending on other goods is likely rise to compensate and so boost other industries** – the net effect of this shift to the alcohol industry and gain to other sectors is ambiguous.

In the 'long run' (when productive capacity is the main constraint on the economy) lower alcohol consumption is **likely to have a positive effect** by boosting productivity and labour supply, by reducing absenteeism, presenteeism, unemployment and premature mortality.

In the **'short run'** (when a shortage of demand is the main constraint on the economy), the **effect is more uncertain** and depends critically on what products are substituted for alcohol. Without a detailed and rigorous modelling exercise, this is impossible to discern with any confidence, though:

- modelling in the US suggests lower alcohol spending can raise employment.
- the Office for National Statistics' economic multiplier estimates suggest a 10% decrease in alcohol spending could increase or decrease national income by at most £1 billion.

The Office for Budget Responsibility's analysis suggests that the **long run effects are more relevant to the UK economy at the present time.**

Such theoretical arguments are bolstered by the lack of empirical evidence to suggest that lower alcohol spending is bad for the economy. Indeed, in the only relevant academic study, **econometric analysis of US states suggests that a 10% increase in per capita consumption is associated with a 0.4% decrease in per capita income growth.**

Taken together, these indicators suggest that **the impact of even a large shift in alcohol consumption on the economy is likely to be small** – a fraction of a percentage point of GDP.

The effect of a shift in spending away from alcohol has similarly ambiguous implications for employment in the short run, but should boost employment in the long run by increasing labour force participation.

How alcohol consumption is reduced may be as economically consequential as how much it falls by. In the short run, maintaining spending in the on-trade is more important for employment; but in the long run, the higher productivity in the off-trade is more salient. Different alcohol policies affect different segments of the industry differently – for example, a minimum unit price would discourage drinking in the off-trade, but most likely have little effect on the on-trade.

Recent Policy Developments

The national living wage will have a particularly significant effect on the on-trade, given the relatively low wages that are standard in the industry. It is likely to lead to price rises in pubs, bars and clubs, which could well exacerbate the shift towards supermarkets.

There remains significant uncertainty over the implications of Britain's exit from the EU for the alcohol industry, in terms of trade access, the ability to employ migrant workers and future regulations.

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