

Response to the IEA's Discussion Paper, 'Alcohol and the Public Purse'

Summary

- 'Alcohol and the Public Purse' addresses an excessively narrow question, ignoring social and economic costs that must, ultimately, be borne by somebody
- Framing the issue as a balance of fiscal costs and benefits misses the point that it is better to avoid the costs in the first place
- The neglect of private costs undermine the IEA's claim that drinkers are subsidising non-drinkers
- Though the IEA is correct that it is vitally important to avoid conflating fiscal and economic costs, press reporting of the study encourages similar confusion
- The IEA make methodological judgements that are likely to have understated the full cost of alcohol to the state

Overview of the IEA Report

The Institute of Economic Affairs' (IEA) recent discussion paper, 'Alcohol and the Public Purse', attempts to calculate the net cost of alcohol to the state.¹ It estimates the direct cost to government departments resulting from alcohol, and compares this to the revenue generated from taxing drinking. The IEA claim that while direct alcohol-related costs in England in 2015 amount to £3.9bn, the revenue generated from alcohol taxes amounts to £10.4bn. They therefore conclude that in aggregate alcohol provides a net benefit of £6.5bn to the Exchequer.

The IEA's estimate of £3.9bn of alcohol-related costs is clearly significantly lower than the £21bn cited in the UK government's alcohol strategy², or the £20bn estimated by the Cabinet Office in 2001.³ This is for two main reasons:

- The IEA have excluded social and economic costs that are not directly borne by the government. For example, the emotional and physical costs of crime are excluded; only the cost to the criminal justice system is included
- The IEA have adjusted the methodology commonly used to estimate the costs of alcohol to society. While there are a number of amendments, there are two that are particularly salient: the IEA have used a lower estimate for the number of hospital admissions attributable to alcohol, and assumed a lower proportion of Accident & Emergency cases are attributable to alcohol.

As figure 1 shows, the bulk of the difference between the Cabinet Office's and IEA estimates is due to the exclusion of costs that are not considered in the IEA reports. Figure 2 illustrates that these excluded costs are primarily the costs to individuals and businesses resulting from crime and workplace and wider harms, categories that include the emotional cost of suffering crime, replacing and repairing damaged property, preventative measures against crime, lost output and premature death.

¹ Snowdon C. (2015) Alcohol and the Public Purse: Do drinkers pay their way. London: IEA

² HM Government (2012) The Government's Alcohol Strategy, p3

³ Leontaridi, R (2003). Alcohol misuse: how much does it cost? London: United Kingdom Cabinet Office

Figure 1: Methodological Comparison of Cabinet Office and IEA Cost Estimates⁴⁵

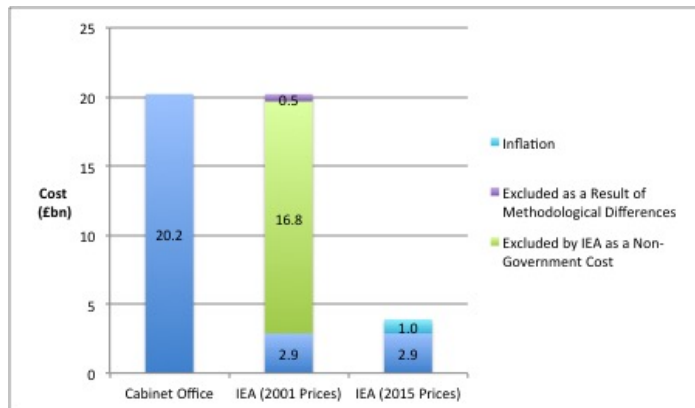
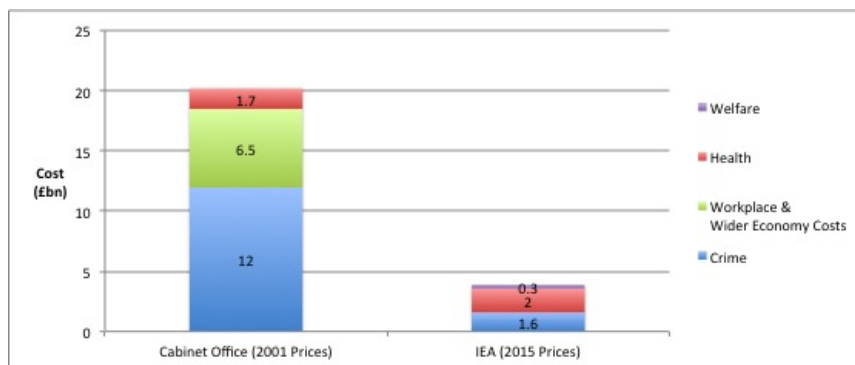


Figure 2: Cabinet Office and IEA Cost Estimates by Cost Type⁴



The IEA’s argument is limited in scope, and doesn’t address the key causes of concern around alcohol harms

The most important point about the IEA paper is that it deliberately addresses only a very limited question – what the impact of alcohol is on the government’s fiscal balance. By design, it does not look at broader social or economic costs. There is no argument from the IEA that these costs do not matter, or that they ought to be ignored. They are simply bracketed for a separate conversation. Indeed, the IEA themselves acknowledge the legitimacy of alternative approaches that would deliver a higher estimate of alcohol-related cost: “There is nothing wrong with estimating the gross cost of an activity to society or the economy, but neither tells us how much the activity costs the taxpayer” (p 9).⁶

⁴ In order to make this comparison, the proportion of Cabinet Office Health costs excluded under the IEA method as a result of methodological differences is assumed to be the same in 2015 as in 2001. Moreover, the same inflation rate that the IEA apply to crime costs (147%) is applied backwards to welfare costs.

⁵ Figures 1 and 2 compare the IEA’s report to the Cabinet Office’s £20bn estimate for alcohol-related costs as this analysis forms the basis for the IEA’s report

⁶ Indeed, elsewhere, the report’s author has argued that for public health cost-benefit analysis to be “carried out correctly”, it requires counting “pleasure and enjoyment as benefits”. In other words, private, often intangible, costs and benefits ought to be considered. Cf Snowdon, C. Does nanny know best?. IEA Blog. Available from: <<http://www.iea.org.uk/blog/does-nanny-know-best#VfKovPgAeqI.twitter>> [Last accessed 9 September 2015]

This restriction inevitably limits the force of the IEA’s argument. Most people who are concerned about the level of alcohol harm in the UK are not primarily motivated by a desire to balance the government’s budget. Rather, they are concerned by the damage to public health, crime, social disorder and wider economic costs caused by excessive drinking.

Indeed, framing the question as a matter of balancing fiscal costs and benefits contradicts the general principle that it is preferable to avoid incurring costs in the first place than to compensate for them.⁷ The IEA’s approach perversely implies that it does not matter how much hardship and damage a person causes as long as they pay for it. Indeed, the original Cabinet Office report which forms the basis of the IEA’s analysis cautions explicitly against such a narrow approach: “it cannot be argued that if the net impact of alcohol misuse on the government’s budget were positive then alcohol misuse would be in the public interest. Budgetary studies of this type totally ignore the costs of loss of life and the pain and suffering caused by alcohol misuse”.⁸

This matter is further complicated by the fact that many of the harms in question are non-financial. This inevitably makes it difficult to value these harms in financial terms, but this is better than ignoring them entirely, or merely paying lip service to them. While the IEA mentions such harms in passing, references to “intangible or emotional costs which are arbitrarily monetised” (p8) is a rather flippant tone to use for discussing sexual and emotional abuse, harassment and people feeling afraid in public spaces.

However, even if we are considering the question of compensation, it is inadequate to simply ignore costs borne by private individuals and businesses, rather than the state. The fact remains that somebody needs to pay these costs – whether it’s protecting themselves against crime, replacing goods that are stolen or vandalised, or functioning less productively at work. The IEA argue that it is misleading to balance these costs against revenue from taxation. But in that case, we need to acknowledge that there is no compensatory mechanism for the billions of pounds of harm suffered by private individuals and businesses.

The report has performed a valuable service in bringing to light the limitations of previous data/analysis and the confusion they have caused

The IEA study rightly remarks on “how slender some of the evidence is behind the assumptions in cost-of-alcohol studies”, and expresses the hope that “this paper will make journalists and politicians more circumspect when citing cost-of-alcohol estimates in the future”. This is undoubtedly a legitimate point. The last comprehensive independent analysis of the cost of alcohol is over 12 years old, and is highly sensitive to assumptions based on limited data.⁹ The IAS therefore echoes the need for further research and updating of the analysis. However, it is critical that this is not used as an excuse to ignore the evidence we already have. What is clear is that there is a sizeable amount of harm associated with alcohol, and the limitations of existing estimates of this should not cause us to neglect it.

⁷ Though such a principle might not necessarily meet the strict standards of economic rationality, it is a principle that most people would nonetheless endorse, perhaps because compensation rarely accounts for all costs, because intangible costs are difficult to value. cf Tversky, A. & Kahneman, D. Loss Aversion in Riskless Choice: A Reference Dependent Model (1991) *The Quarterly Journal of Economics* 106:4, 1039-61.

⁸ Leontaridi, R (2003), op. cit., p14

⁹ While there have been subsequent efforts to update the numbers produced by Leontaridi’s Cabinet Office study, these have not significantly reviewed the methodology used, and they have generally been focused on health (eg NHS (2012) The cost of alcohol harm to the NHS in England (2009/2010))

The IEA is also correct in identifying the dangers of conflating social costs, economic costs and fiscal costs. 'Alcohol and the Public Purse' should encourage all sides of the debate to be more careful in the language they use. It is vitally important to be clear about the difference between different types of costs, and just as important to clarify who bears these costs – the government, the drinker, other people or businesses.

Much of the coverage and interpretation of the IEA's findings has been misleading

While the IEA's report criticises public health campaigners for confusing costs to the economy with costs to the Treasury, it is disappointing to see newspaper reports of the paper making the very same error:

*"Boozers are subsidising teetotallers as research shows how much they pour into the economy"*¹⁰ (The Mirror)

*"Britain's drinkers are helping to boost the economy by £6.5 billion a year"*¹¹ (The Express)

As discussed above, the IEA's report says nothing about the cost to the economy, but only refers to the cost to the government.

While these headlines are ultimately the responsibility of the newspapers that publish them, it is notable that the IEA's official twitter account made the same mistake, tweeting: "Britain's drinkers are helping to boost the economy by £6.5 billion a year".¹²

The idea of a 'subsidy' from drinkers to non-drinkers, which was central to both the IEA's press release and many of the press reports, is misleading in a more subtle way.¹³ This implies that non-drinkers are better off for the fact that other people drink, because this (according to the IEA) reduces their tax burden. But if we are comparing the balance of costs and benefits between drinkers and non-drinkers, it is no longer appropriate to ignore private costs. Therefore, it does not follow that drinkers subsidise non-drinkers, unless the IEA can show that the tax 'subsidy' (if it exists) is greater than the private costs to non-drinkers.

Moreover, even in narrow fiscal terms, this 'subsidy' will be significantly smaller than the widely claimed £6.5bn. The IEA does not account for the fact that drinkers also use public services that are not directly related to their drinking – they still send their children to state schools, they are still treated for non-alcohol related ailments on the NHS, they still have their rubbish bins collected. If we accept the IEA's numbers, alcohol raises £6.5bn for the Treasury, which is presumably spent on public services. But 79% of this £6.5bn will be spent on drinkers, since drinkers comprise 79% of the population (assuming that drinkers and non-drinkers are equally likely to use public services not

¹⁰ Glaze B. (2015) Boozers are subsidising teetotallers as research shows how much they pour into the economy, *The Mirror*, 3 September 2015. Available from: <<http://www.mirror.co.uk/news/uk-news/boozers-subsidising-teetotallers-research-shows-6371420>> [Last accessed 9 September 2015]

¹¹ Hall M. (2015) Britain's drinkers are helping to boost the economy by £6.5 billion a year, *The Express*, 2 September. Available from: <<http://www.express.co.uk/news/uk/602566/Britain-drinkers-economy-boost>> [Last accessed 9 September 2015]

¹² IEA "Britain's drinkers are helping to boost the economy by £6.5 billion a year."

related to drinking).¹⁴ This would imply that the subsidy is in fact closer to £1.4bn (21% of £6.5bn).

There are issues with the IEA’s chosen methodology

Alongside the criticisms above, there is reason to challenge the IEA’s methodology on its own terms, as it appears to understate the full extent of alcohol’s cost to the government. In ‘Alcohol and the Public Purse’, there are a number of costs that are omitted from the IEA’s analysis. Most significantly, the IEA do not attribute any social care costs to alcohol, despite the evidence that alcohol is often related to child neglect and mistreatment.¹⁵ This has been estimated to cost the government between £1bn-£2.5bn, so on its own could add 50% the IEA’s estimate of alcohol costs.¹⁶ A number of other costs to the state are also excluded, including the cost to the fire service of alcohol related fires, the cost of administering alcohol licenses and the cost of cleaning up mess and damage to public spaces caused by drinkers. It is not clear how much these could add to the total, but these cannot be ignored from a thorough estimate of the cost of alcohol to the state.

Additionally, despite the IEA’s claim that they “err towards generosity rather than conservatism when compiling the estimates”, there are a few assumptions that appear to understate the cost of alcohol. First, the IEA ignore hospital admissions where alcohol is a secondary diagnosis (except where these are classified as an ‘external cause’). Although this approach is regarded by Public Health England as the best means for monitoring changes in admissions over time¹⁷, it is likely that it fails to capture the full extent of the burden drinking causes the NHS. The Office for National Statistics (ONS) notes that in some cases where alcohol is a secondary diagnosis, it “will have been a contributing factor to the admission”, and that “it may be a complicating factor and affect the care that is given to the patient, potentially making treatment more costly”. The ONS therefore suggests that the broad measure of alcohol admissions, which includes all secondary diagnoses related to alcohol, is “felt to give a better estimate of the number of admissions to hospital caused or affected by alcohol consumption at a particular time or place and hence the pressure put on the health system”.¹⁸ Similarly, Public Health England has claimed that the broad measure “should be considered a better measure of the broader impact of alcohol on hospital services”.¹⁹ Second, the IEA assume that 14% of A&E visits are attributable to alcohol. While they acknowledge that there is significant uncertainty around this figure, it is worth noting that this is towards the lower end of the 2-40% range that is sometimes cited.²⁰ By comparison, the majority of respondents in a 2015 IAS survey of emergency consultants estimated alcohol-related incidents to account for more than 20% of their workload.²¹

In sum, a number of the IEA’s judgements about which costs to include and assumptions around the contribution of alcohol to specific costs are likely to understate the size of

¹⁴ Office for National Statistics (2015), *Adult Drinking Habits in Great Britain 2013*

¹⁵ Forrester D., Harwin J. (2006) Parental substance misuse and child care social work: findings from the first stage of a study of 100 families. *Child and Family Social Work* 11, 325-35; Forrester D., Harwin J. (2008) Parental substance misuse and child welfare: outcomes for children two years after referral. *British Journal of Social Work*, 1518-35.

¹⁶ This is estimated by applying the methodology from Jones L., Bates G., McCoy E. et al (2010) The economic and social costs of alcohol-related harm in Leeds 2008-09 to the latest available government data on adult and child social care (Department for Communities and Local Government (2014) General Fund Revenue Account Outturn R03 – Social

¹⁷ Public Health England (2013) Alcohol-related admissions: summary of responses to the consultation and future plans

¹⁸ ONS (2014) *Statistics on Alcohol England, 2014*. Health and Social Care Information Centre, p25

¹⁹ Public Health England (2013), *op. cit.*, p.14

²⁰ York Health Economics Consortium (2010) *The Societal Cost of Alcohol in Scotland for 2007*, p28

²¹ Institute of Alcohol Studies, Forthcoming

alcohol related costs to the government. The magnitude of this underestimation is unclear, however, without further investigation.

Conclusion

'Alcohol and the Public Purse', purports to show that drinkers of alcohol "pay their way", claiming that the tax generated from alcohol consumption exceeds the cost to government services due to alcohol. However, this represents an excessively narrow view that does not account for the broader social and economic costs of alcohol, including the cost to victims of crime and economic losses due to productivity. The fact that the government is not directly accountable for these costs does not mean they should be ignored.

Moreover, while the paper makes the legitimate point that costs to society, economy and government ought not to be conflated, it has caused similar confusion in some of its interpretations and reporting. In particular, the idea of drinkers 'subsidising' non-drinkers is misleading – if we are looking at the individual balance between drinkers and non-drinkers, we need to account for the private individual costs that the IEA exclude from their report.

Finally, there is reason to suspect that the IEA's methodology underestimates government costs resulting from alcohol. It excludes the costs to social care services resulting from alcohol, to the fire service of alcohol-related fires and the cost to public services of cleaning up alcohol-related mess and destruction.

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September 2015

I am grateful to Katherine Brown of the Institute of Alcohol Studies; John Holmes and Robert Pryce of the Sheffield Alcohol Research Group, as well as Neil Martin of Balance for their ideas and comments on this paper.

About the Institute of Alcohol Studies

The core aim of the IAS is to serve the public interest on public policy issues linked to alcohol, by advocating for the use of scientific evidence in policy-making to reduce alcohol-related harm. The IAS is a company limited by guarantee, No 05661538 and registered charity, No 1112671. For more information visit www.ias.org.uk.

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