

Budget Submission – March 2023

About the Institute of Alcohol Studies

The Institute of Alcohol Studies (IAS) is an independent institute bringing together evidence, policy and practice from home and abroad to promote an informed debate on alcohol's impact on society. Our purpose is to advance the use of the best available evidence in public policy decisions on alcohol. For more information, please visit www.ias.org.uk.

Introduction

We welcome the chance to make a representation to this Budget. IAS is a member of the Alcohol Health Alliance UK (AHA) and endorses the AHA's Budget submission which covered the following four areas:

1. Alcohol harm is occurring at unacceptably high levels
2. Increasing alcohol duty is an effective way to reduce harm
3. Duty also raises revenue to offset some of the costs of alcohol harm, though successive cuts have hampered its ability to both reduce harm and raise revenue.
4. Reform of the alcohol duty system is welcome and will bring about public health benefits. An inbuilt uprating mechanism is needed to protect these benefits in the future.

This representation will not repeat these arguments but instead highlight relevant research on:

- the economic impact of alcohol consumption
- economic effects of alcohol duty changes
- employment in the alcohol industry and how this is affected by duty changes
- the impact on the hospitality sector of duty changes and the shift to at-home drinking

Overall, there is good evidence that alcohol duty can be increased in spring Budget 2023 to reverse the increasing trend of alcohol harm without negatively affecting the economy or the hospitality sector.

The impact of alcohol harm on the economy

Arguments around alcohol duty often focus on balancing the seemingly conflicting needs of the economy and public health. However, these two goals are not mutually exclusive: a healthy population is good for the economy and evidence suggests policies to tackle alcohol harm do not adversely impact economic output or employment.¹ Meanwhile, the cost of alcohol-related ill-health is a considerable financial pressure on the NHS: the OECD has estimated that alcohol consumption is responsible for around 3% of healthcare costs in the UK, amounting to around £8.3 billion.² The total cost of alcohol to the UK is estimated to be £27 – 52 billion.³

¹ Fraser of Allander Institute (2018) [The economic impact of changes in alcohol consumption in the UK](#)

² OECD (2021) [Preventing Harmful Alcohol Use: Key Findings for the United Kingdom](#)

£8.3bn is 3% of £277bn, the figure given for total current health expenditure in 2021 by the ONS

Office for National Statistics (2022) [Healthcare expenditure, UK Health Accounts provisional estimates: 2021](#)

³ Burton, R. et al (2016) [A rapid evidence review of the effectiveness and cost-effectiveness of alcohol control policies: an English perspective](#). The Lancet

Alcohol costs the UK economy around £8-11 billion a year through alcohol-related sickness absence, unemployment, impaired workplace productivity and premature death.⁴

- **Premature death:** Alcohol is the leading risk factor for death, ill health and disability among 15-49 year olds in the UK and approximately 167,000 working years of life were lost to alcohol in England in 2015 – more than the combined total for the ten most common types of cancer.⁵
- **Sickness:** There is a strong link between high alcohol consumption and workplace absence. A recent meta-analysis showed that heavy episodic drinkers and high-risk drinkers had higher rates of sickness absence compared with light to moderate drinkers.⁶
- **Unemployment:** Multiple studies have found an association between heavy drinking and a higher risk of unemployment. A UK study found that being a “problem drinker” (indicated by drinking more than 45 units a week or reporting things like guilt, loss of control or morning drinking) reduced the likelihood of being in employment by 7-31%, an equivalent effect to not having a degree.⁷ A 2011 literature review of eight studies showed all eight indicated a link between heavy drinking and increased risk of unemployment.⁸
- **Impaired workplace productivity:** Institute of Alcohol Studies research on the economic impact of hungover and intoxicated workers found that up to 89,000 people may attend work hungover or drunk on any given day. On average, respondents reported that they were 39% less effective when intoxicated or hungover at work. The research estimated an annual cost to the economy of between £1.2 - £1.4 billion, suggesting that the UK Government has underestimated the cost of alcohol to the British economy by almost 20%.⁹

The impact of alcohol duty on the economy

Alcohol industry lobbyists have argued that a reduction in alcohol duty could increase revenue for the Treasury.¹⁰ This claim has been repeated in Parliament, for example by Alistair Carmichael MP:

“The chief executive of the Scotch Whisky Association made the point this morning that, time after time, freezes in spirits duty have delivered more revenue to the Treasury”¹¹

However, such arguments rely upon the controversial Laffer curve model and have been fully refuted.¹² Office for Budget Responsibility and HM Treasury analyses accompanying fiscal events makes clear that a cut to alcohol duty has a negative impact on revenue: for example, documentation published with the 2022 Autumn

⁴ Institute of Alcohol Studies (2017) [Splitting the bill: alcohol's impact on the economy](#)

⁵ Public Health England (2016) [The public health burden of alcohol and the effectiveness and cost-effectiveness of alcohol control policies](#).

⁶ Marzan, M. et al (2022) [Systematic Review and Dose-Response Meta-Analysis on the Relationship Between Alcohol Consumption and Sickness Absence](#) Alcohol and Alcoholism

⁷ MacDonald, Z. & Shields, M.A. (2004) Does problem drinking affect employment? Evidence from England, Health Economics

⁸ Henkel, D. (2011) Unemployment and substance use: a review of the literature (1990-2010), Current Drug Abuse Reviews

⁹ Institute of Alcohol Studies (2019) [Financial headache: the cost of workplace hangovers and intoxication to the UK economy](#).

¹⁰ Scotch Whisky Association (2021) [Budget submission](#)

¹¹ Hansard, HC Deb, 17 October 2022, c)420

¹² Institute of Alcohol Studies blog (2017) [The dangerous mirage of the whisky Laffer curve](#)

Statement estimated that cancelling the planned one-year freeze in alcohol duty would bring in an estimated £1.3 - £1.5bn in additional revenue annually.¹³

There is no robust evidence to suggest that a reduction in consumer spending on alcohol is bad for the economy.¹⁴ Research from the Fraser of Allander Institute (FAI) at the University of Strathclyde showed that a 10% increase in UK alcohol taxes, with the revenue reinvested in public services, had the potential to increase national income by £850 million and increase employment by 17,000 jobs.¹⁵ The findings are consistent with US modelling studies that found a 5% increase in alcohol tax in five US states would result in the creation of additional jobs.¹⁶

The FAI research does not include the economic benefits of improved health so the actual dividend would be even higher. Modelling by the University of Sheffield showed that increasing alcohol duty by 2% above inflation every year would save more than 5,000 lives and prevent almost 170,000 hospital admissions in England and Scotland over 12 years, saving the NHS £754 million and £46 million in England and Scotland respectively.¹⁷

Economic benefits from a reduction in spending on alcohol are possible because a decline in spending on alcohol products does not occur in isolation – instead it is more realistic to assume a resultant increase in spending in other areas. The economic multiplier of alcoholic drinks is 1.91, meaning that for each £1 spent on alcohol, an additional 91p of value is created. This is a relatively high multiplier, though lower than the multiplier for soft drinks which is 2.18. This means that if consumers switched spending from alcohol to soft drinks, the additional value created for the economy would increase.¹⁸

Employment in alcohol production

Around 27,000 individuals were employed in the production of alcohol in Great Britain in 2017, accounting for just 0.1% of all employee jobs.¹⁹ There is a strong regional nature to employment in alcohol production though, even in areas associated with alcohol production, the proportion of people employed by the alcohol industry is relatively low. For example, 40% of GB cider and perry production is in Herefordshire but these jobs only accounted for 1% of the total number of jobs in the county in 2017, suggesting that an increase in cider duty would not be significantly harmful to the local economy.²⁰ There are also only seven local authorities in the UK where alcohol production accounts for more than 1% of jobs.²¹ Even in Moray, the local authority with the highest proportion of alcohol production jobs, only 3.3% of people are employed in alcohol production, less than in schools, hospitals, groceries, and biscuit and cake production.²² Furthermore, for scotch whisky especially, the relationship between employment and domestic consumption is not straightforward as around 90% of scotch whisky is exported.²³

¹³ HM Treasury (2022) [Autumn Statement 2022](#)

¹⁴ Institute of Alcohol Studies (2017) [Splitting the bill: alcohol's impact on the economy](#)

¹⁵ Fraser of Allander Institute (2018) [The economic impact of changes in alcohol consumption in the UK](#)

¹⁶ Wada, R. et al (2017) Employment impacts of alcohol taxes, *Preventive Medicine* 105, s50-55.

¹⁷ University of Sheffield (2019) [Modelling the impact of alcohol duty policies since 2012 in England & Scotland](#)

¹⁸ Institute of Alcohol Studies (2017) [Splitting the bill: alcohol's impact on the economy](#)

¹⁹ Social Market Foundation (2019) [Pour decisions? The case for reforming alcohol duty](#)

²⁰ Social Market Foundation (2019) [Pour decisions? The case for reforming alcohol duty](#)

²¹ Institute of Alcohol Studies (2017) [Splitting the bill: alcohol's impact on the economy](#)

²² Ibid.

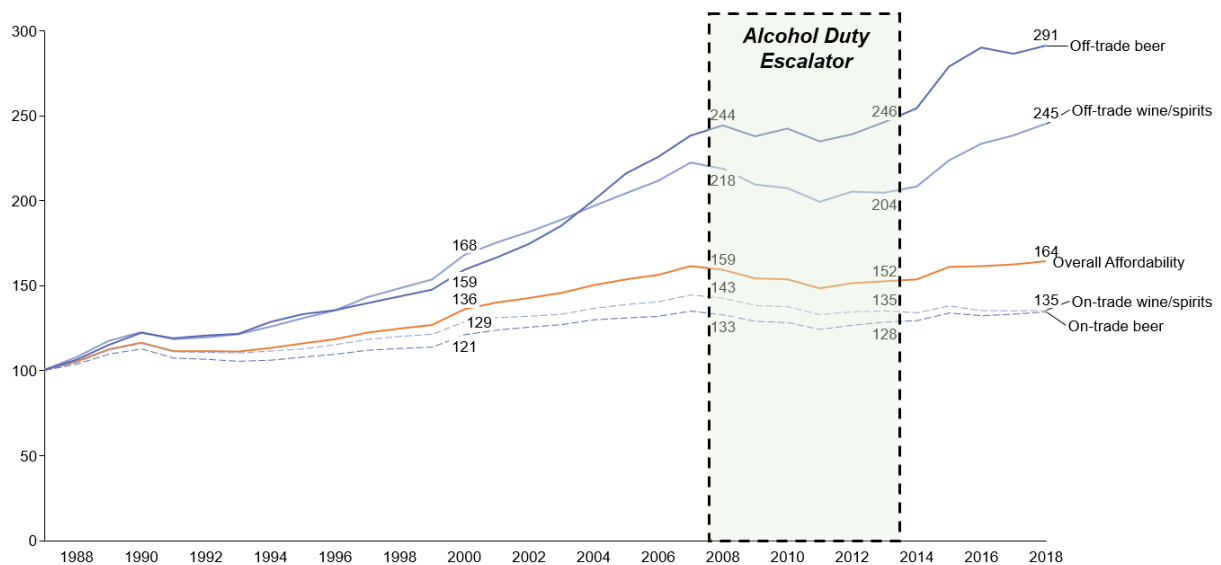
²³ [Written evidence](#) by the Scotch Whisky Association (2020)

Though protecting jobs is a goal of government policy, tax cuts that protect jobs in the production of harmful alcohol products may lead to a decline in employment in the long run due to the harmful nature of the product that is made.²⁴

The hospitality sector

Around 506,000 people are employed in pubs, clubs and bars, the vast majority of all jobs linked to the alcohol industry.²⁵ The Government has cited supporting the hospitality industry as a reason for freezing alcohol duty in the past.²⁶ However, duty cuts impact prices in both the on- and the off-trade, allowing supermarkets to maintain lower prices that can undermine pubs. Alcohol affordability has risen by far more in the off-trade than the on-trade: off-trade beer affordability has more than tripled since 1987, and off-trade wine and spirits affordability has increased by 163%. By contrast, on-trade alcohol is just over 42% more affordable than in 1987.²⁷

Figure 1: Affordability Index by beverage type and location, 1987–2018²⁸ (1987=100)



Duty accounts for a larger proportion of the price of off-trade sales, so the growing affordability gap has been partially driven by cuts and freezes to duty. As figure 1 shows, the period of the alcohol duty escalator – when alcohol duty was increased by 2% above inflation every year – was the only period when rising affordability in the off-trade was curbed. Notably, the net decline in the number of pubs during this period was 1.5% a year, compared to a net decline of 1.9% a year between 2013 and 2018 when beer duty was frozen.²⁹

Pub landlords report that rising affordability of off-trade alcohol is a greater threat to their businesses than alcohol duty. An IAS survey found that changes to lifestyle, competition from the off-trade and high business rates were identified by publicans

²⁴ Social Market Foundation (2019) [Pour decisions? The case for reforming alcohol duty](#)

²⁵ Institute of Alcohol Studies (2017) [Splitting the bill: alcohol's impact on the economy](#)

²⁶ HM Treasury (2020) [Budget Speech 2020](#)

²⁷ Institute of Alcohol Studies (2020) [March Budget analysis](#)

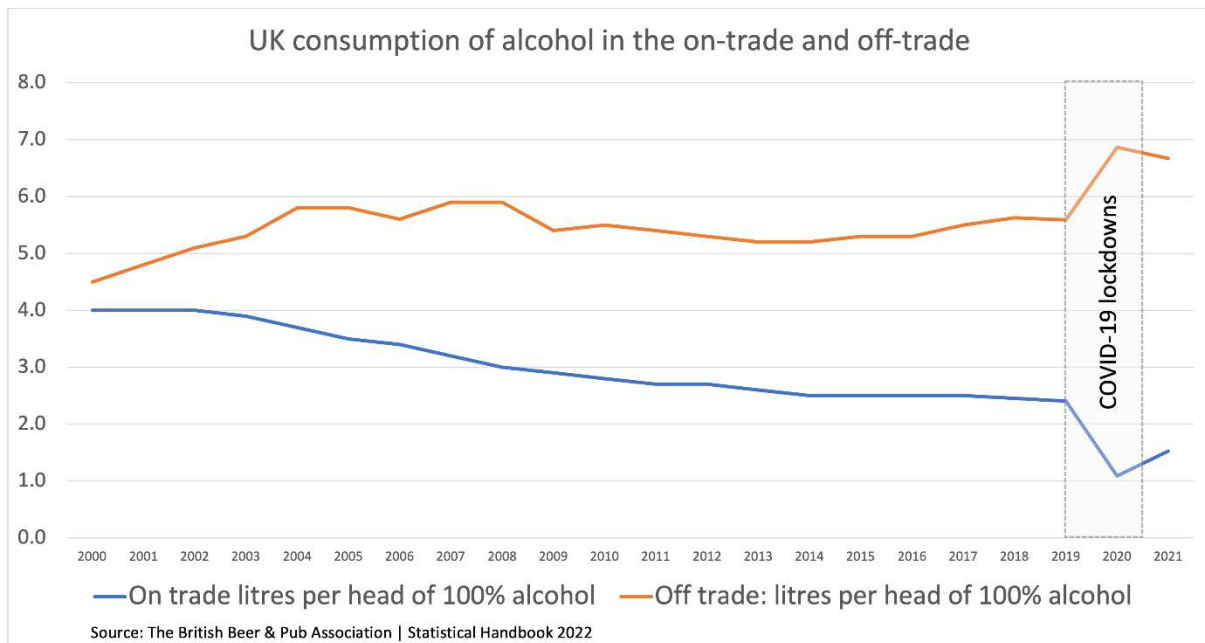
²⁸ Institute of Alcohol Studies analysis

²⁹ Institute of Alcohol Studies (2020) [Budget 2020 analysis](#)

as the main causes of pub closures. By comparison, alcohol taxes were ranked 7th out of 10 possible causes of closures.³⁰ Similarly, in a 2018 survey, just 4% of publicans in the North East of England thought alcohol taxes were the main cause of pub closures, compared to 51% who cited cheap off-trade alcohol.³¹

Indeed, at-home consumption has steadily increased over the last twenty years while on-trade alcohol consumption has decreased. This ongoing trend has been further exacerbated by COVID-19 lockdowns, during which time off-trade volume sales of alcohol increased by 25%.³²

Figure 2: UK consumption of alcohol in the on- and off-trade³³



The higher price of alcohol sold in the on-trade, means that this shift to at-home drinking represents a significant revenue loss for the UK alcohol market. This impact was considered in detail in IAS research:

“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.”³⁴

Off-trade alcohol is more strongly associated with higher risk drinking. Harmful drinkers account for 32% of alcohol-related revenue in the off-trade, compared with just 17% of revenue in the on-trade. Harmful and hazardous consumption is more associated with off-trade alcohol across all beverage types.³⁵ Under the new alcohol

³⁰ Institute of Alcohol Studies (2017) [Pubs quizzed: what publicans think about policy, public health and the changing trade](#)

³¹ Balance North East (2018) [Views from behind the bar. North East Landlord Survey 2018.](#)

³² Public Health England (2021) [Monitoring alcohol consumption and harm during the COVID-19 pandemic: summary.](#)

³³ The British Beer & Pub Association, Statistical Handbook 2022

³⁴ Institute of Alcohol Studies (2017) [Splitting the bill: alcohol's impact on the economy](#)

³⁵ Bhattacharya, A. et al (2018) [How dependent is the alcohol industry on heavy drinking in England?](#) Addiction

duty structures, the proposed new draught relief effectively allows for different rates between the on- and off-trade for beverages that can be sold on draught. We support a different level of duty between the on- and off-trade to reflect the different levels of harm, though an increase in off-trade duty to counterbalance draught relief would better achieve health improvement goals.

Despite the draught relief proposal, further cuts or freezes to alcohol duty risk widening the affordability gap between the on- and off-trade, especially for wine and spirits which are not eligible for draught relief. Further duty cuts therefore have the potential to drive the shift towards off-trade drinking with negative consequences for health, hospitality and the economy as a whole. If a key objective of alcohol duty cuts is to support the hospitality sector, this could be better achieved through reductions to VAT and business rates without bringing about the negative public health impact of reducing alcohol duty.³⁶

We therefore recommend that the current alcohol duty freeze is not extended at spring 2023 Budget and that an automatic uprating mechanism is built into the Finance Bill to ensure the new duty system commencing in August maintains its value over time.

³⁶ Institute of Alcohol Studies (2017) [Pubs quizzed: what publicans think about policy, public health and the changing trade](#)