

# Getting in the spirit?

Alcohol and the Scottish economy

**Aveek Bhattacharya**

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The Social Market Foundation is Britain's leading cross-party think-tank, standing proudly in the centre-ground of politics since 1989.

Social Market Foundation, Third Floor, 5-6 St Mathew St, London, SW1P 2JT  
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# While the alcohol industry is a prominent part of the Scottish economy, stricter regulation of the domestic market is unlikely to have negative economic effects

## Executive Summary

- The Scottish alcohol industry can be split in two: Scotch whisky, and everything else
  - 4.9% of the Scottish economy (£8.1bn) can be attributed to the sale of alcohol, around 60% of which comes from whisky exports
- Distilling generates substantial income, but a fairly modest number of relatively well-paid jobs
  - Alcohol's share of employment (2.4%) is half its share of GDP because whisky production is not very labour-intensive
- The whisky industry mostly caters to foreigners: 99% of scotch production is for export, and Scots drink considerably more wine, beer and vodka than they do whisky
  - It is a substantial contributor to the Scottish Balance of Trade, representing 15% of international exports
- Most of the 60,000 Scottish jobs related to alcohol, however, are in the domestic market: around half are in pubs, bars and restaurants
  - These are some of the lowest paying jobs in the economy: the average hourly wage is £8.46
- The overall effect of lower alcohol consumption on the economy is ambiguous: lost alcohol sales are offset by increased sales in other sectors that gain from diverted demand, and the benefits of a healthier, more productive workforce
- Moreover, the societal costs of alcohol go far beyond the £1.2 billion estimated economic cost – including the £ value put on lost life, they are comparable to alcohol's contribution to GDP – amounting to between £5-10 billion
- Further measures to reduce Scottish alcohol consumption are likely to have only modest effect on the economy – the bigger challenges are for Scotland's relations with other countries

# Scotland faces an apparent tension between taking steps to reduce harmful drinking and supporting its economy through the alcohol industry

## Introduction

- Scotland's relationship with alcohol is complicated: it has a global reputation for producing alcohol (particularly whisky), but that has come with historically high levels of drinking and harm:
  - Scotland's alcohol-specific death rate was three times as high as England's at the turn of the century, and the death rate remains over 60% higher today
- Policies to address alcohol harm have been resisted by the alcohol industry
  - The Scottish Government's alcohol strategy has been regarded by many as world-leading, bringing with it restrictions on promotions, changes to licensing law and most notably minimum unit pricing (MUP)
  - MUP was delayed for six years due to a legal challenge from the Scotch Whisky Association before it came into force in 2018
- The Scottish Government is currently consulting on restrictions on alcohol sports and events sponsorship, marketing in outdoor spaces, the retail display of alcohol and alcohol advertising in the media
- The potential economic impact of such measures is likely to be a prominent part of the debate around these proposals, and so this document analyses the relationship between alcohol and the Scottish economy

Source: ONS, [Alcohol-specific deaths in the UK: registered in 2021](#)

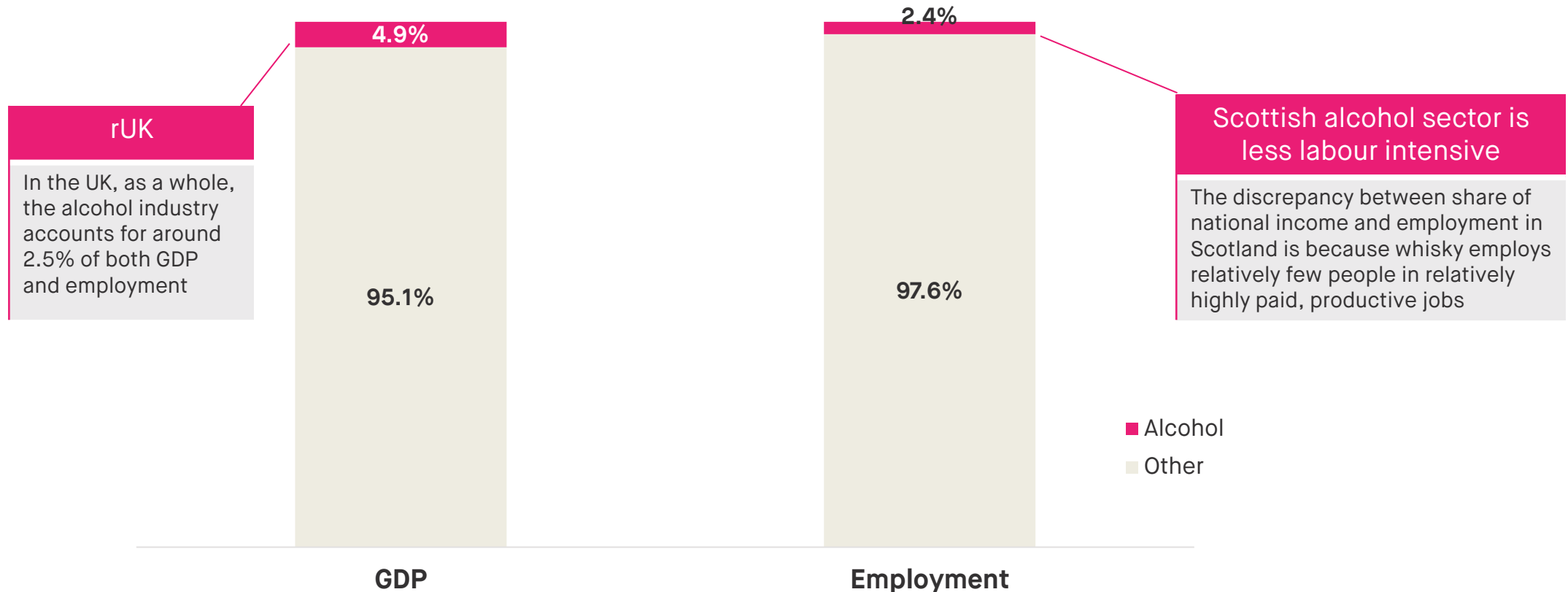
# This report explores the relationship between alcohol and the Scottish economy, and implications for policymakers

## Key definitions and methodological approach

- It estimates the contribution to Scottish **GDP** (that is national income, or the total value of economic activity) and **employment** that can be attributed to alcohol sales
  - This involves a broad definition of the alcohol industry – counting not just the jobs and income generated by producing alcohol (distilling, brewing etc.), but also other activities along the supply chain eg. selling alcohol in bars and restaurants, or in wholesale or distribution
  - Where a job involves selling multiple goods and services, it is allocated in proportion to revenue
    - For example, 80% of pub, club and bar revenue is from alcohol, and 41% on-trade alcohol revenue is beer, so it is assumed that 33% (80% x 41%) of pub, club and bar employment is attributable to alcohol
- The approach taken here broadly follows the one used in the 2017 Institute of Alcohol Studies report, *Splitting the Bill: alcohol's impact on the economy* – refer to that document for additional methodological detail

# The alcohol industry, broadly construed, is responsible for 4.9% of Scottish national income, and 2.4% of employment in Scotland

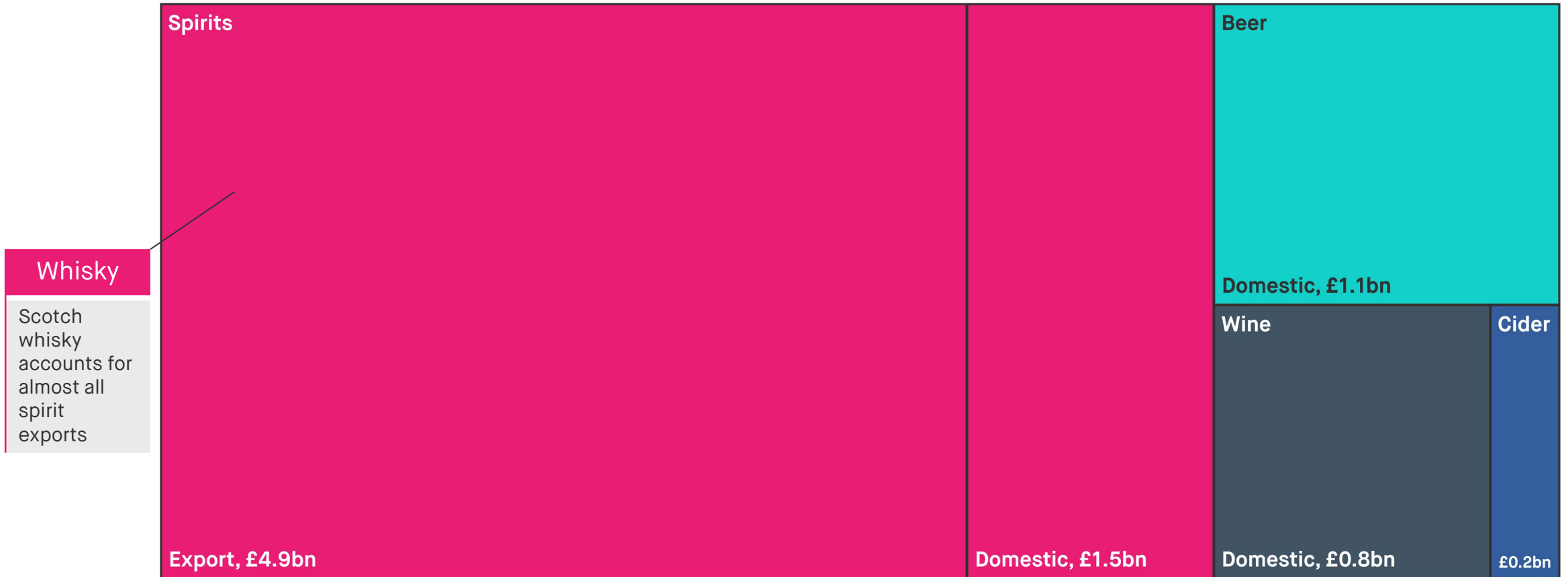
Alcohol industry share of Scottish economy, 2021



Source: ONS, Business Register & Employment Survey; Public Health Scotland, MESAS monitoring report 2022; [UK Trade Info](#); Scottish Government, [GDP Quarterly National Accounts](#); IAS, [Splitting the Bill](#); SMF analysis

Overall, the alcohol industry contributes £8.1bn to the Scottish economy, 75% of which comes from spirits and 60% from exports

Breakdown of alcohol industry contribution to Scottish GDP by drink type, 2021

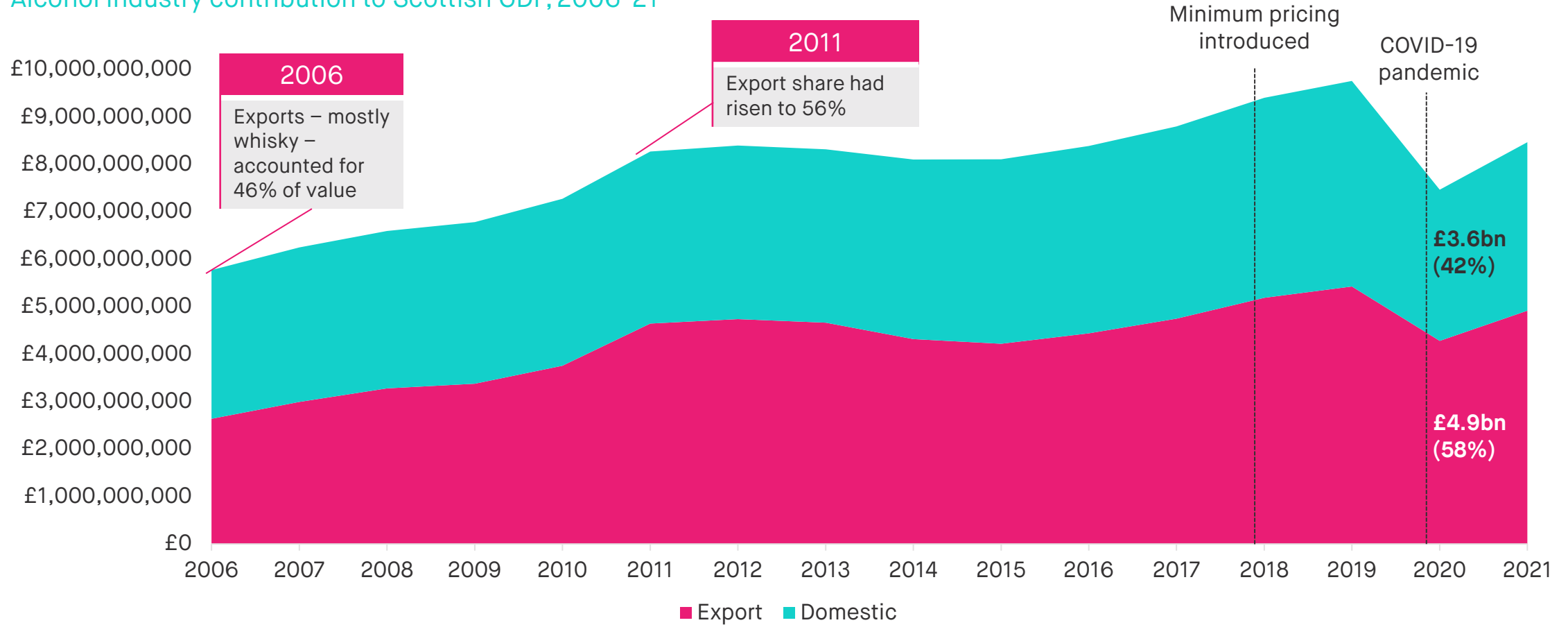


Source: ONS, Business Register & Employment Survey; Public Health Scotland, MESAS monitoring report 2022; [UK Trade Info](#); SMF analysis



The economic value generated by whisky exports rose dramatically in the late 2000s, having previously made up less than half of industry contribution to GDP

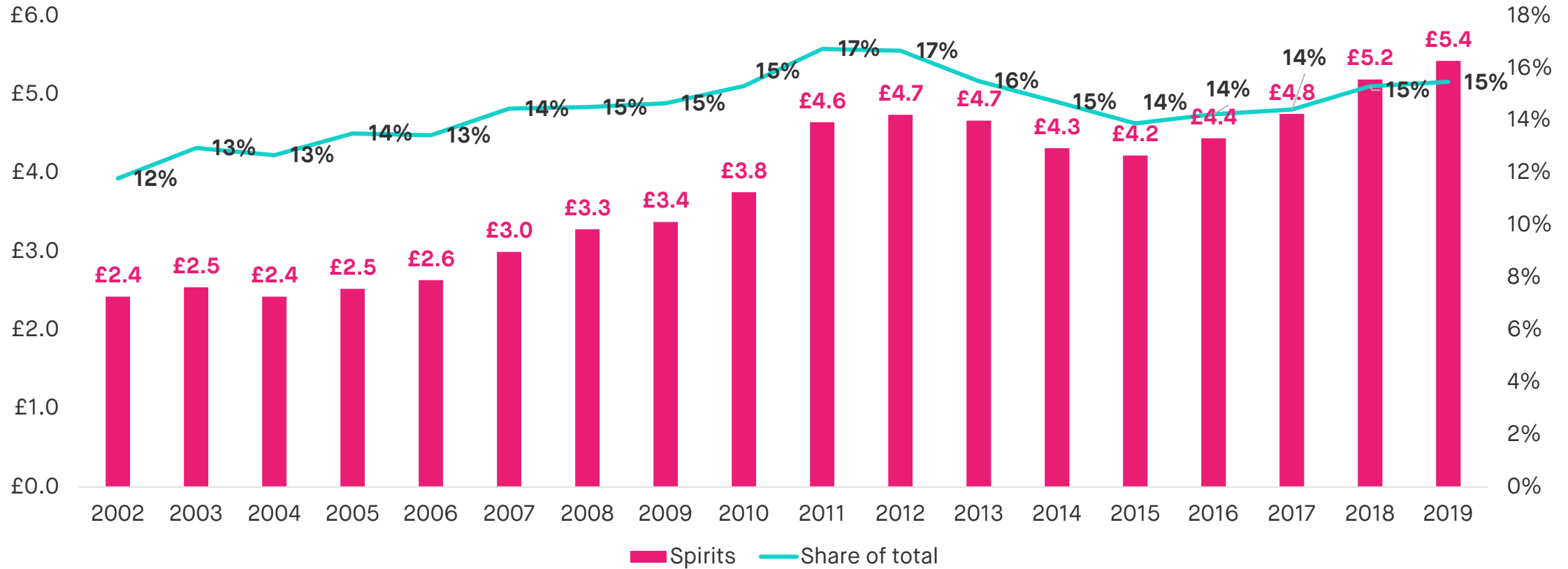
Alcohol industry contribution to Scottish GDP, 2006-21



Source: Public Health Scotland, MESAS monitoring report 2022; UK Trade Info; Scottish Government, [Export statistics Scotland: 2019](#); SMF analysis

# Spirits – almost entirely whisky – make a substantial contribution to the trade balance, accounting for 15% of all Scottish international exports

Spirits exports share of total Scottish international exports (£bn)



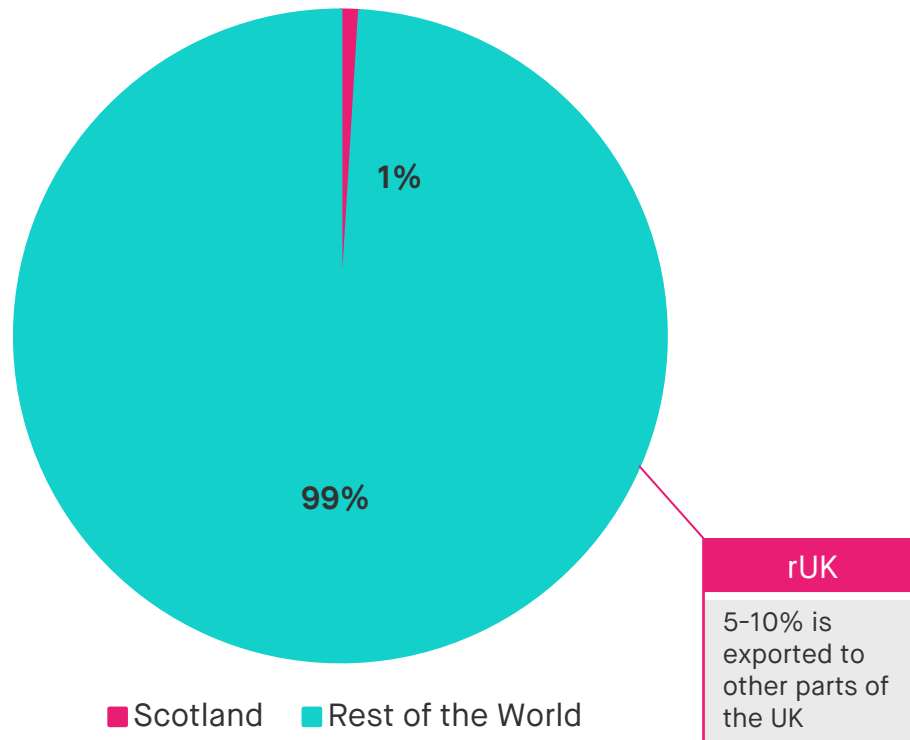
Source: Scottish Government, [Export statistics Scotland: 2019](#); SMF analysis



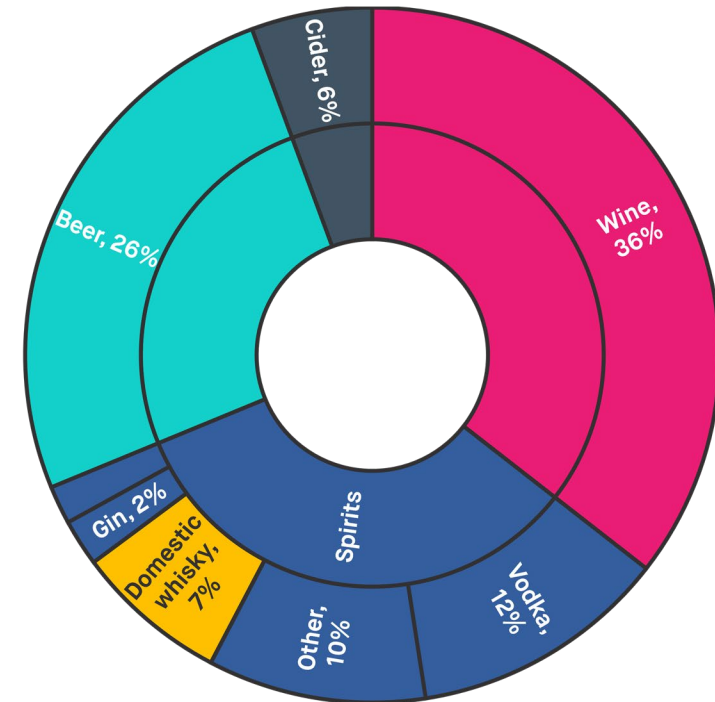
# Yet whisky is fairly marginal in the domestic Scottish market: 99% of scotch leaves the country, and Scots drink far more vodka than whisky

Scotch in its domestic market

### Scotch whisky sales by location



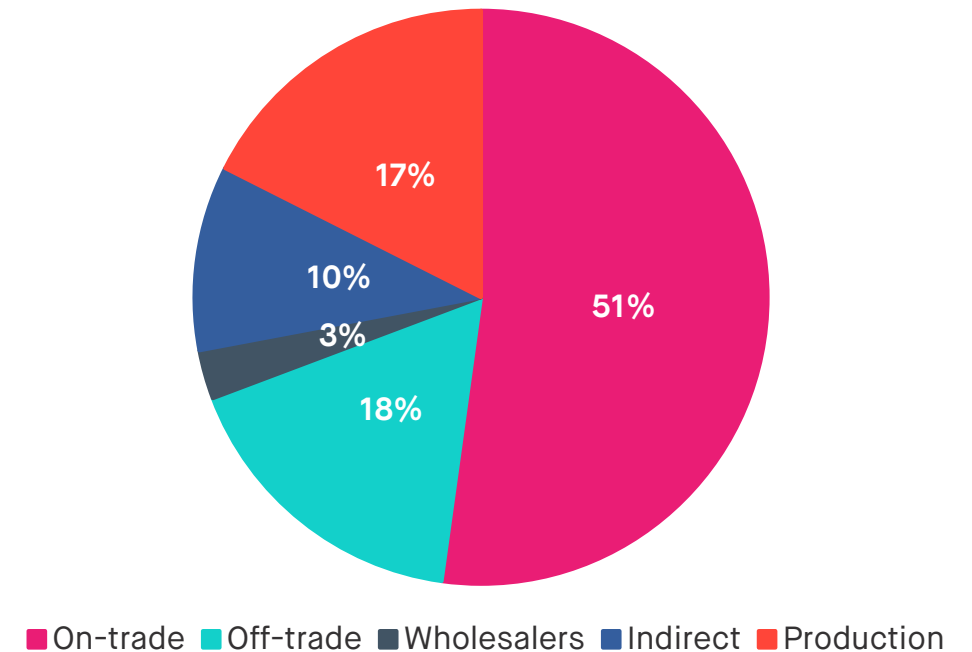
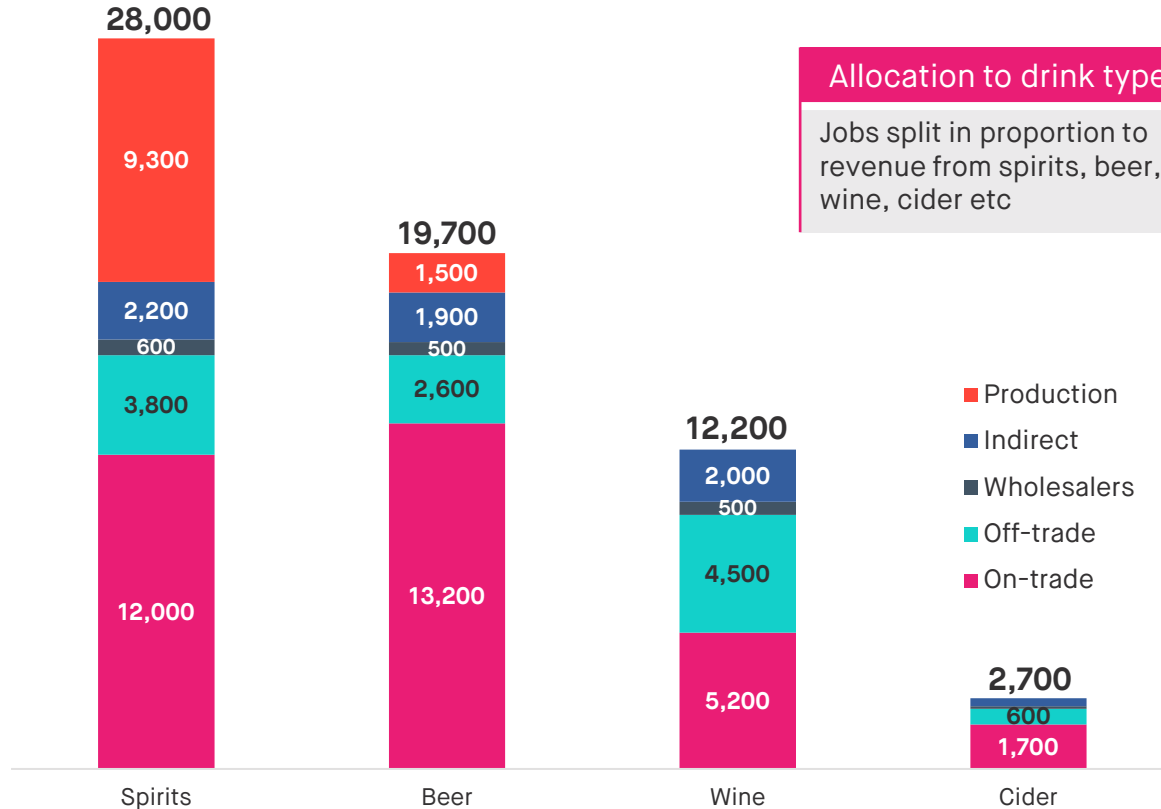
### Breakdown of Scottish off-trade volume sales by drink type, 2021



Source: Public Health Scotland, MESAS monitoring report 2022; Scotch Whisky Association; SMF analysis

# It is the domestic market that matters more for employment: 60,000 jobs can be attributed to alcohol sales – half in the on-trade, 11,000 in production

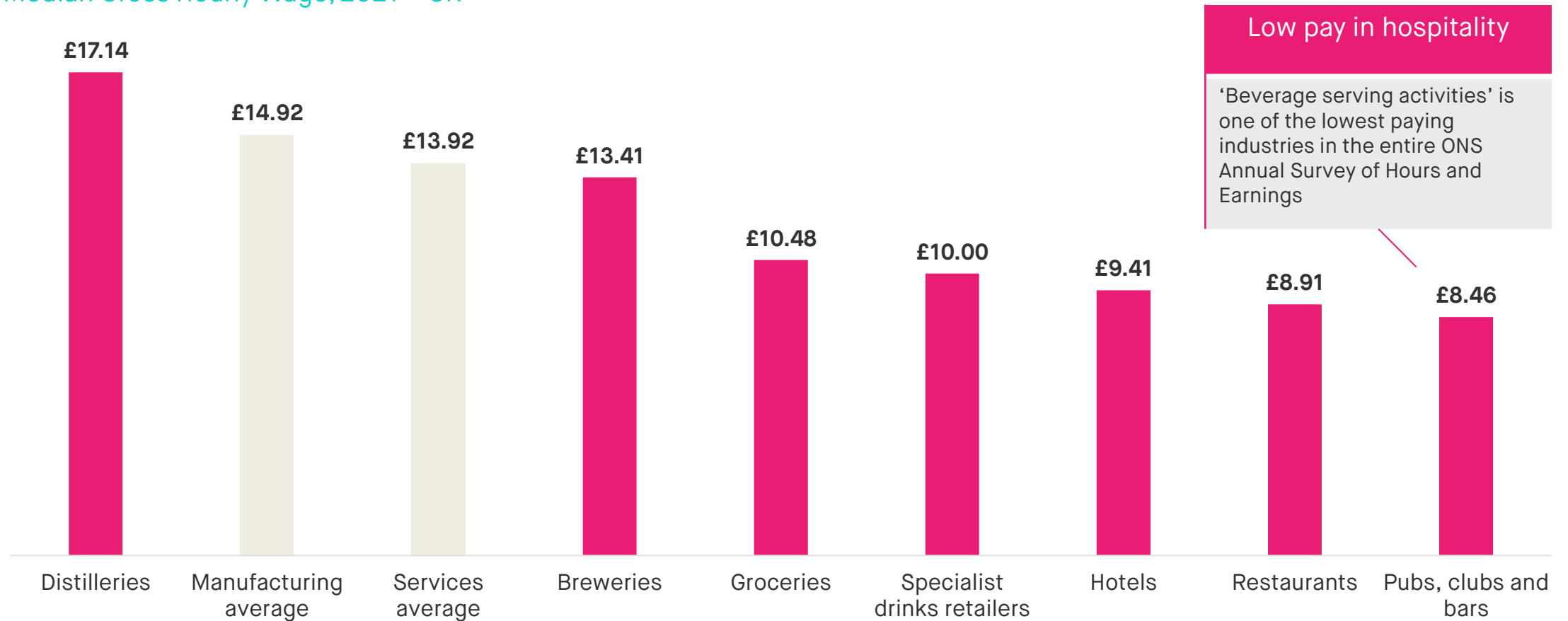
Breakdown of alcohol industry employment in Scotland, 2021



Source: ONS, Business Register & Employment Survey; Public Health Scotland, MESAS monitoring report 2022; SMF analysis

# Jobs in distilling are highly productive and fairly well paid, but the bulk of alcohol-related jobs are low paying hospitality positions

Median Gross Hourly Wage, 2021 – UK



Source: ONS, Annual Survey of Hours and Earnings; SMF analysis

# Most constituencies have relatively few jobs in distilling

Percentage of total employment in distilleries by Scottish Parliamentary Constituency



Source: ONS, Business Register & Employment Survey; SMF analysis

# And those constituencies with distilleries have the most jobs attributable to the alcohol industry

Share of employment attributable to alcohol and to distilling



Source: ONS, Business Register & Employment Survey; SMF analysis

## Yet in no constituency is distilling among the top three employers – public sector and retail jobs tend to be more significant in most places

### Top 10 sectors by employment in Key Constituencies

#### Moray

Sector	Employment
Hospital	2,000
Primary education	1,750
Grocery retail	1,500
Public administration	1,250
<b>Distilling</b>	<b>1,250</b>
Baked goods manufacture	1,000
Secondary education	800
Elderly/disabled non-residential care	700
Other non-residential care	600
Freight transport	600

#### Dumbarton

Sector	Employment
Public administration	2,250
Facilities support activities	2,000
Defence	1,500
Grocery retail	1,250
Primary education	1,000
Hotels & accommodation	1,000
<b>Distilling</b>	<b>1,000</b>
Hospital	1,000
Secondary education	600
Licensed Restaurants	500

#### Mid Fife & Glenrothes

Sector	Employment
Public administration	6,000
Other non-residential care	1,750
Grocery retail	1,250
Hospital	1,000
Primary education	1,000
<b>Distilling</b>	<b>1,000</b>
Measuring, testing, navigation instruments	800
Unlicensed restaurants	600
Crop production support	600
Public order and support	500

Source: ONS, Business Register & Employment Survey; SMF analysis

## Yet in no constituency is distilling among the top three employers – public sector and retail jobs tend to be more significant in most places

### Top 10 sectors by employment in Key Constituencies (2)

#### Glasgow Anniesland

Sector	Employment
Hospital	5,000
Ship construction	2,000
Grocery retail	1,250
Other health care	900
Primary education	800
Non-residential social work	600
Civil engineering	600
<b>Distilling</b>	<b>600</b>
Residential nursing care	450
Unlicensed restaurants & cafes	450

#### Argyll & Bute

Sector	Employment
Hospital	1,500
General public	1,500
Hotels	1,250
Grocery retail	1,250
Home construction	700
Secondary education	600
Call centres	600
Licensed restaurants	500
Marine aquaculture	450
Unlicensed restaurants & cafes	500
<b>Distilling</b>	<b>400</b>

#### Carrick, Cumnock & Doon Valley

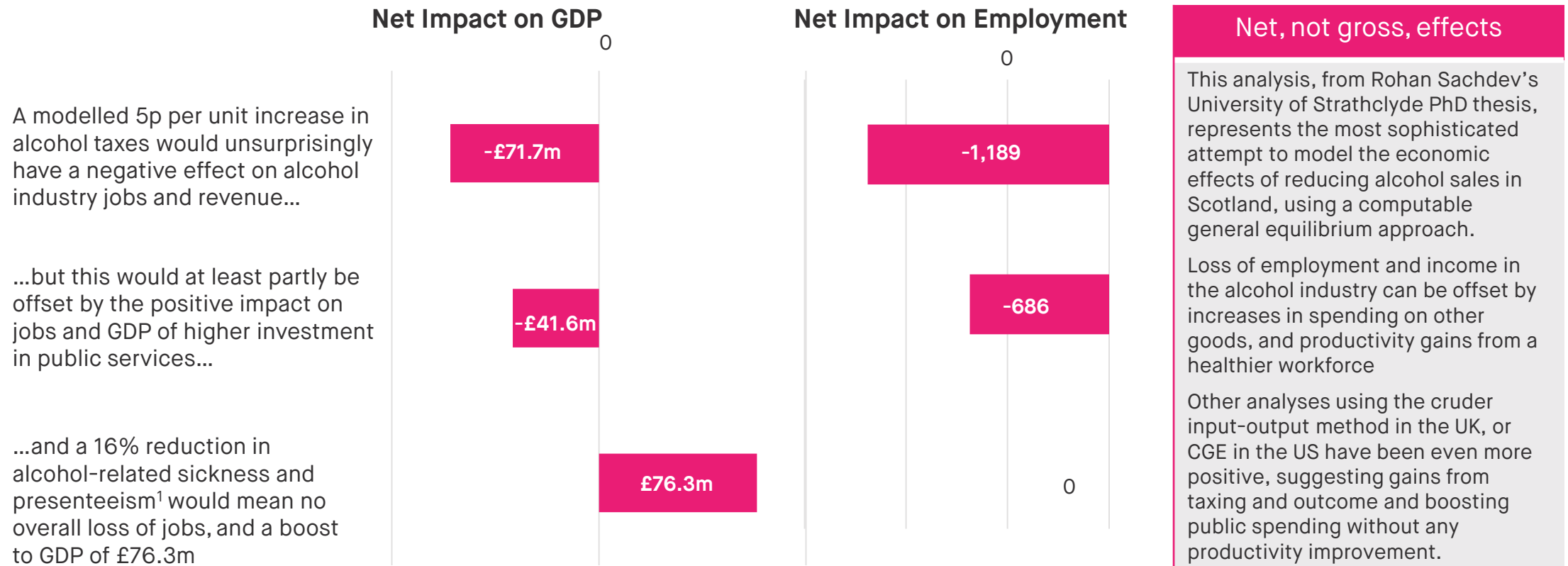
Sector	Employment
Other healthcare	2,500
Non-residential social work	1,250
Grocery retail	1,250
Aircraft manufacturing	1,000
Camping grounds	900
Primary education	800
Hotels	800
Other residential care	600
Residential nursing care	500
<b>Distilling</b>	<b>400</b>

Source: ONS, Business Register & Employment Survey; SMF analysis



# None of this implies reducing alcohol sales would be bad for the economy – that depends on what spending replaces it, and the benefits of a healthier workforce

## Macroeconomic modelling of an alcohol tax increase in Scotland



<sup>1</sup>'Presenteeism' is when a person is able to attend work but is less productive because of ill health



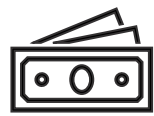

Source: Sachdev (2021), *The use of multi-sectoral models in evaluating the macroeconomic impacts of reduced household consumption of sin goods: the case of alcohol consumption in Scotland*

# Alcohol also generates substantial societal costs: estimates suggest they could amount to £5-10bn, with around £1.2bn cost to the economy

## Societal and economic cost of alcohol in Scotland

- Putting a monetary value on the harm caused by alcohol is complicated, and sensitive to a range of methodological judgements.
- In 2010, the Scottish Government commissioned the York Health Economics Consortium to estimate the societal cost of alcohol in Scotland, which they calculated to be £3.6 billion in 2007.
- In 2012, researchers at the University of Aberdeen carried out their own assessment, and found the figure to be higher: £7.2 billion in 2010:
  - The discrepancy is mainly due to the inclusion of morbidity costs (the cost to sufferers of non-fatal alcohol-related illness), but the Aberdeen method also underestimates crime costs due to data limitations.
- The figures opposite present the estimates from those studies, uprated in line with inflation. They do not account for changes in drinking patterns or levels of harm
- With over a decade since the last systematic analysis of the societal cost of alcohol in Scotland, the Government should commission an update of its previous analysis.

### Total Costs, 2021/22

	York method	Aberdeen method
 <b>Intangible costs</b> e.g. value of lost life	£2.0bn	£7.2bn
 <b>Health &amp; social care costs</b>	£0.7bn	£0.5bn
 <b>Labour &amp; productivity costs</b>	£1.2bn	£1.2bn
 <b>Crime costs</b>	£1.0bn	£0.1bn
<b>Total</b>	<b>£4.9bn</b>	<b>£9.6bn<sup>1</sup></b>

<sup>1</sup> Does not sum to total because of unattributed costs

Source: Scottish Government (2010), [The Societal Cost of Alcohol Misuse in Scotland for 2007](#); Johnston et al (2012), [Inequalities in the distribution of the costs of alcohol misuse in Scotland](#); SMF analysis

# The Scottish Government should not be put off further regulation of alcohol on economic grounds – the greater issue is how it relates to other governments

## Conclusions

- Further regulation on alcohol in Scotland may be contentious, but the economic case against policies to reduce alcohol harm is weak
- As an export industry, domestic market regulation has little direct effect on scotch whisky, which accounts for the majority of output and the most productive and highly paid jobs
- The economic cost of reducing alcohol sales in Scotland can be largely offset by gains to other sectors and the benefits of a healthier workforce
- Industry groups sometimes argue that domestic regulation can have a knock-on effect on export markets – for example, by ‘setting an example’. Such claims are speculative at best.
- However, they do raise a genuine ethical challenge for the Scottish Government – to what extent is promoting the Scottish drinks industry abroad (for example, by seeking lower tariffs in a trade agreement with India) simply exporting harmful drinking?

## Summary of the Impact of Alcohol on the Scottish Economy



**Over £5bn in exports**  
mainly Scotch whisky



**11,000 manufacturing jobs,**  
generally well-paid



**50,000 jobs elsewhere in the supply chain, typically less well-paid hospitality jobs**

Likely replaced by jobs and income in other sectors if alcohol spending fell



**£1.2bn cost to productivity**

Due to presenteeism, sickness, unemployment and premature mortality