

Minimum unit pricing of alcohol

Raising the rate

In this Update, **Jon Guest** investigates the impact of minimum alcohol pricing, which was introduced in Scotland in 2018

In May 2018, minimum unit pricing for alcohol (MUP) was introduced in Scotland. The level was initially set at 50p per unit and the legislation included a sunset clause, which meant the policy would automatically cease after 6 years unless the Scottish Parliament voted for it to be continued. After reviewing the evidence, the Scottish government decided to continue with the policy but at a new higher rate of 65p per unit. This new rate came into effect on 30 September 2024.

Similar price floors for alcohol have also been introduced in other countries such as Wales, Ireland and Canada. What is the economic rationale for this type of government intervention? Why do governments intervene more directly in the pricing of alcohol than they do for most other goods?

Externalities

One explanation is that the consumption of alcohol can sometimes impose costs on society that are not incurred by the drinker through the prices that they

pay. Economists call these negative externalities or external costs of consumption. In the case of alcohol consumption these include the impact on healthcare costs, violent crime and drink-driving. For example, in 2022–23 there were over 942,000 alcohol-related hospital admissions in England. In the Crime Survey for England and Wales for the year ending March 2023, 384,000 victims of violent crime believed the perpetrator was under the influence of alcohol. Department for Transport data shows that in 2022, approximately 6,800 people were killed or seriously injured in Great Britain in a traffic accident where at least one driver was over the drink-drive limit. This included 260 pedestrians and 80 cyclists.

MUP explained

MUP places a minimum price on the alcoholic content of a drink. The alcohol content is measured in units where a unit is defined as 10 ml of pure alcohol (ethanol). Therefore, to work out the minimum price for an alcoholic drink, the units of alcohol in that drink need to be calculated.

The standard way of presenting the alcoholic content of a drink is alcohol by volume (ABV). This indicates the proportion of the liquid that is pure alcohol. For example, a 700 ml bottle of gin with an

ABV of 37.5% contains 262.5 ml of pure alcohol, i.e. 37.5% of 700. This is 26.25 units. With an MUP of 50p, the lowest price this bottle can legally be sold for is £13.13. With a new rate of 65p, the lowest price will increase to £17.07. Four 440 ml cans of beer with an ABV of 5% contains 88 ml of pure alcohol or 8.8 units. Therefore, the lowest price these can legally be sold for in Scotland will increase from £4.40 to £5.72.

MUP outcomes

In April 2024, the Scottish Parliament voted to continue with a policy of MUP, but at a new higher rate of 65p per unit. Public Health Scotland (PHS) had reviewed the evidence from 40 research articles on the impact of the original scheme and concluded that there was strong evidence that the policy had achieved the following:

- A strong impact on the price of alcohol in those drinks where it had previously been below 50p per unit. The price of alcohol in those drinks where it was already greater than 50p per unit remained largely unchanged.
- A significant impact on off-trade sales of alcohol to households which spent large amounts of money on alcohol. For example, the 5% of households which spent the most on alcohol before the introduction of MUP reduced their purchases by 14.8%.
- Incentivised a relatively small number of people to cross the border to England to purchase alcohol at lower prices.
- Significantly reduced the number of deaths wholly attributable to alcohol consumption below what they would have been. The impact was greatest among men, those aged over 65 and those living in the most deprived/poorest areas of Scotland.
- Not led to either people substituting illicit drugs for alcohol or greater levels of crime.

Conclusions

There was some limited evidence of the policy having a negative impact on drinkers with alcohol dependence, i.e. those having a craving for and

preoccupation with alcohol. For example, some of these people may have responded by spending less on food to maintain their consumption of alcohol at the same level.

The PHS review also argued that the 50p level may become increasingly ineffective because of the effects on inflation. The Scottish Government concluded that by increasing the minimum unit price to 65p per unit it would increase the health benefits of the policy while minimising any negative effects on consumers and the alcoholic drinks industry.

Questions

- 1 What is the definition of a harmful and hazardous drinker?
- 2 Explain how the external costs of consuming an additional unit of alcohol will differ between moderate and harmful drinkers.
- 3 Draw a diagram to illustrate the impact of the external costs of consuming alcohol on a competitive market. Clearly indicate the deadweight welfare loss.
- 4 What are the advantages and disadvantages of using MUP instead of per-unit taxes to correct for the impact of the external costs of drinking?

Weblinks

BBC report on Scotland's MUP:

www.tinyurl.com/y75we2uj

Public Health Scotland briefing document on MUP:

www.tinyurl.com/35k5aw47

Institute of Alcohol Studies explains everything you need to know about MUP:

www.tinyurl.com/3k7hnbpm

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