

Briefing 14:08

CLOSING TIME

Who's killing the British pub?

By Christopher Snowden
December 2014



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Economic Affairs

*'When you have lost your inns, drown your empty selves, for you
will have lost the last of England.'*

Hilaire Belloc (1912)

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Summary

The UK has lost 21,000 pubs since 1980. Half of these closures have taken place since 2006. This paper examines the likely causes of the recent surge in closures.

Taxation, regulation and the recent decline in disposable incomes are the leading causes of the decimation of the UK pub industry since 2006, responsible for around 6,000 pub closures. The smoking ban and the alcohol duty escalator are particularly culpable.

Long-term cultural changes have been responsible for a further 4,000 pub closures. Other factors, such as the decline in alcohol consumption, may have played a part, but we cannot rule out reverse causality, particularly with regards to the exceptionally large decline in beer consumption.

The blame attached to the beer tie has been greatly overstated. There is little evidence that pubs owned by PubCos have been closing permanently at a faster rate than those in the rest of the sector.

The statutory code proposed by the Department for Business, Innovation and Skills will not stem the tide of pub closures because it aims impractical solutions at the wrong target. A better approach would be to reduce alcohol duty, relax the smoking ban, reduce VAT to 15 per cent and lower it further for food sales, abolish cumulative impact zones and scrap the late night levy.

Introduction

Pessimism about the British pub trade has a long history. In *The Pub and the People*, a study of working class life conducted in the 1930s, researchers from Mass Observation noted that 'The pub as a cultural institution is at present declining' (Mass Observation, 2009: 218). They also concluded that 'the history of the last hundred years of drinking in England is a history of decline' (ibid.: 44). A few decades later, Christopher Hutt published *The Death of the English Pub* (1973), a gloomy assessment of an industry which, in the author's eyes, was being destroyed by large breweries and keg beer. Similar complaints were made by the marginally less downbeat Peter Haydon in his 1994 history, *The English Pub*. In 2010, the *Economist's* obituary editor wrote an 'elegy on the British pub'.

Reports of the pub's death may have been exaggerated, but recent years have given more grounds for pessimism than ever before. Half of the 21,000 pubs that have disappeared since 1980 closed after 2006. Analysts expect thousands more to close before the decade is out. The aim of this paper is to identify the reasons behind the recent decimation of the UK pub trade. A survey of tenant publicans found that pub companies (PubCos), supermarket pricing, taxation, the recession, the smoking ban, 'cultural change' and government regulation were the biggest challenges facing them in 2014 (Department for Business, Innovation and Skills, 2014: 21). This paper will discuss them all.

The UK pub estate

Counting the number of pubs in Britain is not an exact science since there is disagreement about what constitutes a pub (as opposed to a bar, hotel or - prior to 1980 - a beerhouse). Nevertheless, the long-term trend is clear: the number of pubs per 10,000 people has been declining since the late nineteenth century and has been declining in absolute terms since the 1960s.

Haydon (1994: 287) estimates that the number of licensed premises fell from 99,000 in 1905 to 77,500 in 1935, largely as a result of government policy. Deliberate suppression of beer houses in the 1900s was followed by restrictive opening hours, weaker beer and high alcohol taxes during the First World War, none of which were fully reversed in peacetime. Unsurprisingly, this coincided with a large decline in the amount of beer being drunk, from 32.5 gallons per head in the early 1870s to 17.58 gallons in 1935 (Mass Observation, 2009: 215).

In *The Pub and the People*, Mass Observation noted that there were 18.29 pubs per 10,000 people in England and Wales in the 1930s (Mass Observation, 2009: 38), meaning that there were around 73,000 pubs in the two countries, plus a few thousand more in Scotland and Northern Ireland. This figure, which is in line with Haydon's estimate, suggests that the UK lost more than 20 per cent of its pubs in the first decades of the twentieth century.

The Second World War was kinder to the pub trade and alcohol consumption did not fall below the (already low) levels of the 1930s. The postwar period saw a rise in consumption and a pub trade in relatively good health, albeit without the expansion and prosperity of its Victorian hey-day. Throughout the 1960s and early 1970s, per capita beer consumption defied the long-term trend and rose.

The last forty years, however, have been characterised by unambiguous decline. In 1969, there were approximately 75,000 public houses (Monopolies Commission, 1969: 96). By 1980, this had fallen to 69,000 and numbers have gradually continued to fall, dropping to under 60,000 for the first time in 2003. In recent years, the trickle of pub closures has become a flood. The number of pubs plummeted from 58,200 in 2006 to 48,000 in 2013, a drop of 18 per cent in just seven years (BBPA, 2014: 68). The peak in pub closures came in 2009, with 52 pubs shutting down each week, but pubs were still closing at a rate of 31 a week in mid-2014, according to the Campaign for Real Ale (Smithers, 2014).

It has been suggested by some that pubs are not dying but 'evolving'. Based on a rise in the number of alcohol licences, Mark Easton argued in 2009 that thousands of pubs are now classed as cafés, bars or restaurants (Easton, 2009). This does not stand up against the facts. In 2009, when 52 pubs were closing each week, only two 'branded pubs and café style bars' were opening. Even if every branded pub and café style bar had previously been a *bona fide* pub - a most unlikely scenario - there would still have been 50 net pubs closures. In the same period, the number of restaurants increased by just 0.1 per cent. It is an unavoidable fact that pubs, however defined, have been closing in very large numbers and for good.

Cultural change

A common reply to the question of why so many pubs are closing is that society has simply moved on. People have warm, comfortable homes and would prefer to share a bottle of wine in front of the television than spend the evening in the pub. The shift from the pub to the home and other venues has been a long and gradual one. In the late nineteenth century, music hall, day trips on the railway, dog-racing and professional football challenged the pub's virtual monopoly as a working class leisure activity. Cinema, bingo, radio, television and the internet followed in the twentieth century. Reviewing *The Pub and the People* in 1943, George Orwell wrote:

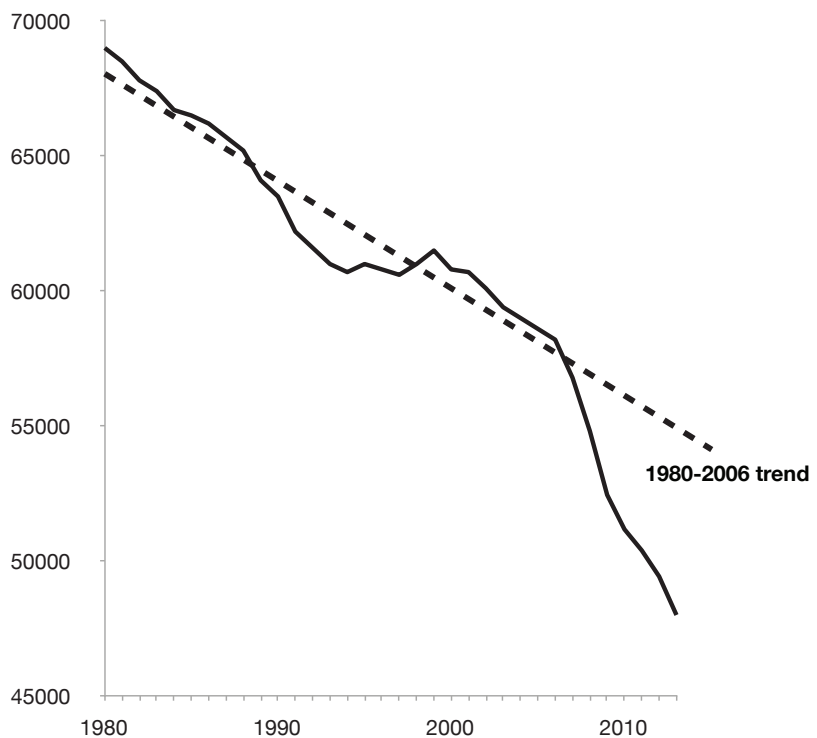
‘the whole trend of the age is away from creative communal amusements and towards solitary mechanical ones. The pub, with its elaborate social ritual, its animated conversations and - at any rate in the North of England - its songs and week-end comedians, is gradually replaced by the passive, drug-like pleasures of the cinema and the radio. This is only a cause for rejoicing if one believes, as a few Temperance fanatics still do, that people go to pubs to get drunk’ (Orwell, 1943).

Some of the cultural changes that have damaged the pub trade are the consequence of economic change - better domestic living conditions, a shrinking of the working class and the decline of heavy industry, for example. Others, such as the mild taboo against lunchtime drinking and the firmer taboo against drink-driving, are the result of changing attitudes. Still others are the result of changing tastes.

This analysis of the pub trade accepts that there is a secular decline in pub numbers that is, in part, due to changing social norms. Nonetheless, even assuming that a certain number of pub closures are inevitable, the post-2006 decline has been exceptional and cannot plausibly be explained

by gradual cultural change alone. As Figure 1 shows, if the secular decline in pub numbers between 1980 and 2006 (dotted line) had continued, we would expect to see approximately 54,000 pubs in business in 2013.¹ In reality, there were only 48,000. We therefore need an explanation for why 6,000 more pubs closed that would be expected using this (arguably pessimistic) model.

Figure 1: Number of pubs in the UK (1980-2013)



1 This forecast remains very similar if we use the more recent 2000 to 2005 trend as its basis.

Beer and wine

Amongst the social changes that have affected the pub's fortunes are the nation's taste in alcohol, which has undergone a dramatic shift in recent decades. Figure 2 shows the rise of lager and the decline of traditional ale and stout (as a percentage of beer sales) (BBPA, 2014: 11). Figure 3 shows the rise of wine consumption (BBPA, 2012: 27). The striking trends shown in these graphs have had a profound effect on the pub trade. Unlike real ale, lager purchased in cans and bottles is very similar to that which comes out of a pub's tap. Wine is the same whether bought from a pub or an off license. In terms of quality of drink, publicans add less value than they did when they were responsible for keeping good beer and rotating their selection of ales.

Figure 2: Sale of lager, ale and stout sold as a percentage of UK beer sales (1967-2013)

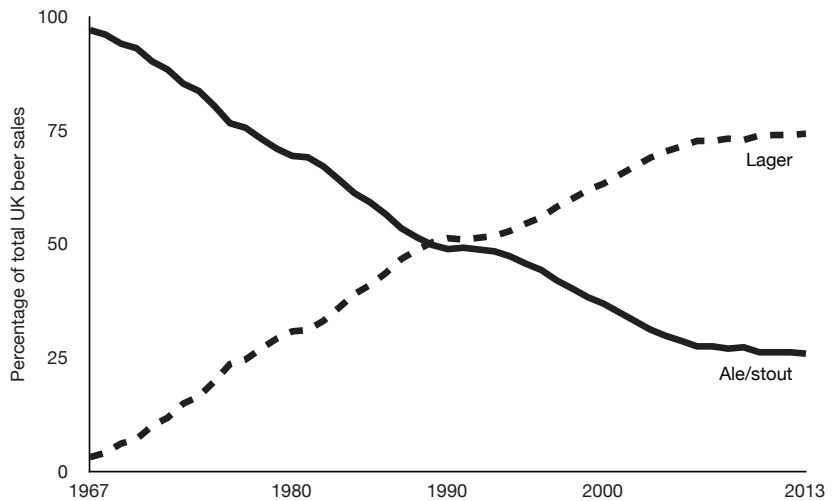
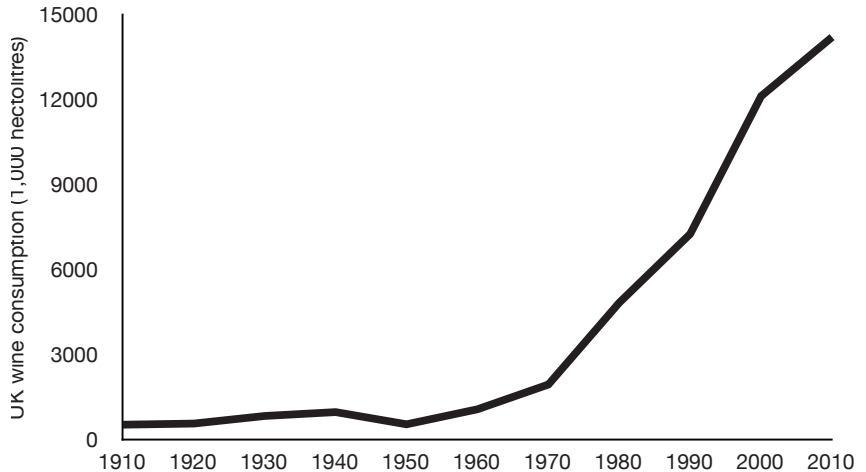


Figure 3: UK wine consumption (1910-2010)



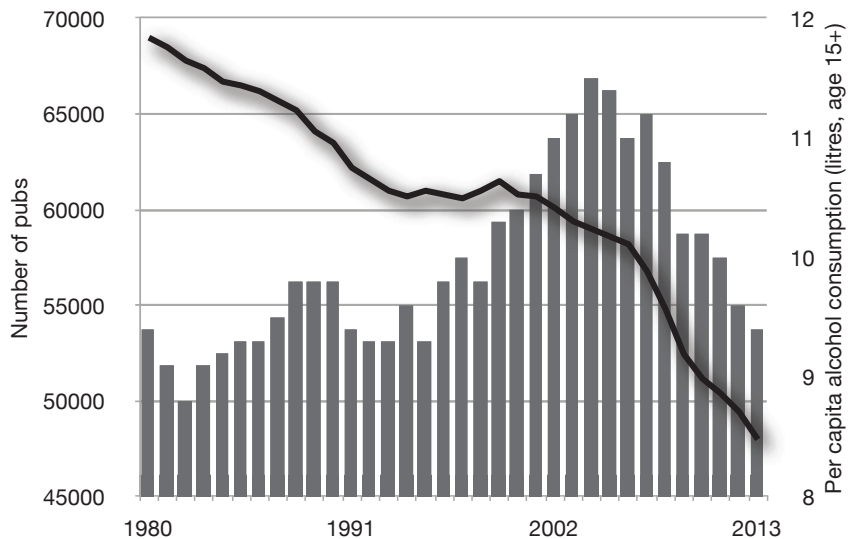
For all the ways that pubs have adapted to changing tastes, their fortunes remain intimately entwined with the sale of beer. But while wine sales have been rising, beer sales have been plummeting. Per capita beer sales rose in the 1960s and 1970s and fell by only a little between 1980 and 2003. Since 2003, however, there has been an astonishing thirty per cent fall in beer consumption, from 218 pints per person (aged 15 or over) to 152 pints in 2011 (BBPA, 2012: 35).

Beer sales have declined in both the on and off trade, but pubs have been harder hit than off-licences and supermarkets. On a per capita basis, the off trade was selling 16 per cent less beer in 2013 than it had sold in 2003, but the on trade was selling 54 per cent less - an incredible decline in the space of ten years (BBPA, 2014: 30-31). At the start of the millennium, two-thirds of all beer was sold in pubs and other licensed venues. By 2013, the on trade's share of this dwindling market had fallen to barely half (BBPA, 2014: 14). Britons are not just losing their taste for beer, they are losing their taste for beer in pubs *in particular*.

Alcohol consumption

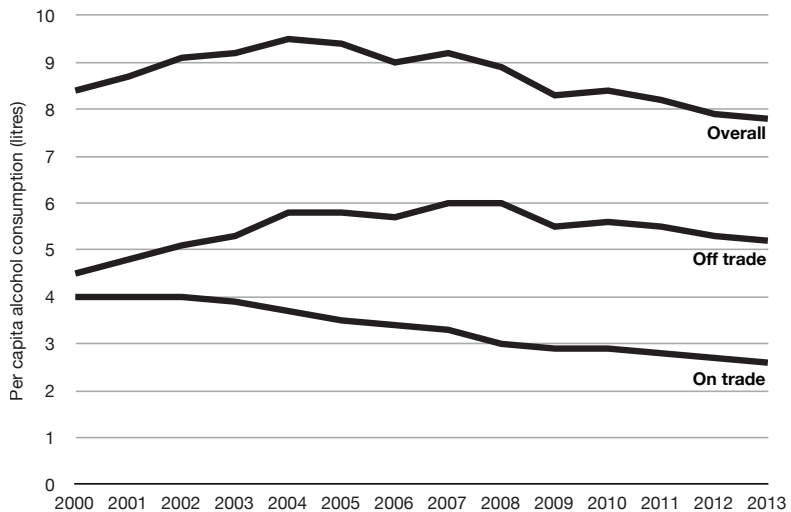
Since 2004, there has been an eighteen per cent fall in per capita alcohol consumption. It has been suggested that lower rates of drinking have been a key driver of pub closures (Hickman, 2008). This is plausible - if people are drinking less, they need fewer pubs - and Figure 4 shows that the recent collapse in pub numbers has coincided with the decline in alcohol consumption. But although alcohol consumption correlates with pub closures in the last decade, it does not do so in the longer term. Pubs numbers were declining, albeit at a slower rate, between 1980 and 2003 when alcohol consumption was increasing. And, although alcohol consumption has declined in the last ten years, it remains higher than it was in the 1960s and 1970s when pubs were - relatively speaking - booming.

Figure 4: Number of pubs and per capita alcohol consumption (1980-2013)



A closer look at the figures suggests that the decline of pubgoing has driven the decline in alcohol consumption rather than vice versa. The fall in alcohol consumption has taken place almost entirely in pubs. Between 2003 and 2013, per capita consumption in the on trade fell by a third, from 3.9 to 2.6 litres of pure alcohol. Sales from off licences and supermarkets, by contrast, hardly fell at all, from 5.3 to 5.2 litres of pure alcohol (BBPA, 2014: 30-31). As Figure 5 shows, alcohol sales in pubs and other licensed venues declined even when the economy was in good health and overall consumption was rising. When per capita consumption began to fall, it declined further still.

Figure 5: Litres of pure alcohol sold in on and off trade (2000-2013)



Two facts stand out. Firstly, the decline in alcohol consumption has been driven by a fall in beer consumption; wine and spirit sales have barely changed since 2003, and cider consumption has risen. Secondly, pubs have borne the brunt of the decline in alcohol consumption to a much greater extent than other alcohol retailers. Cause and effect cannot be proven, but these facts are consistent with the hypothesis that the decline in pubgoing has led to a fall in beer consumption which, in turn, has led to a fall in overall alcohol consumption.

PubCos and the beer tie

19,000 of Britain's 48,000 pubs are run by pub companies ('PubCos') such as Enterprise Inns and Punch Taverns (BBPA, 2014: 68). Most of these pubs are run by tenants who pay the PubCo rent on the property ('dry rent') and are contractually obliged to buy drinks from the PubCo at a rate that exceeds the wholesale market price ('wet rent').

The PubCo business model is supposed to work as follows: the PubCo makes economy-of-scale savings from buying insurance, legal services, satellite television, fittings etc. in bulk. These savings are passed onto the tenant along with a lower rent than would otherwise be available. Because the tenant does not need to get a mortgage on the pub, the PubCo model offers a low-cost method of getting into the pub trade. However, having received these benefits, the tenant must buy the pub's drinks from the PubCo above the market rate.

In theory, the PubCo and the tenant are partners in a business venture. The 'wet rent' exists so that both parties benefit when the pub thrives. However, some have argued that the PubCos exploit naive tenants by ramping up rents and making it difficult for tenants to make a comfortable living. The Campaign for Real Ale (CAMRA) has accused PubCos of rendering many pubs unviable and of asset stripping to pay off their substantial debts. They have called for the beer tie to be outlawed so that PubCo tenants can buy cheaper alcohol from the open market and make higher margins.

It is ironic that the beer tie remains a hotly debated issue a quarter of a century after the Beer Orders (1989) were supposed to consign it to history. The tied house system was the dominant business model of the pub trade in the twentieth century. In 1969, brewers owned 78 per cent of the UK's pub stock (Monopolies Commission, 1969: 96) and they typically required

tenants to stock their own brands of beer. These family-owned breweries are now portrayed as more benevolent than modern PubCos, but at the time they were widely reviled. In *The Death of the English Pub*, Christopher Hutt accused them of committing 'robbery and violence.'

'They have robbed the public of so many vital aspects of their leisure, and their violence has already caused the death of thousands of pubs' (Hutt, 1973: 14).

Hutt quoted a delegate at a meeting whose complaints about the breweries were almost identical to those now made about PubCos:

'You are not dealing with brewers today. They look on your houses as profitable buildings... They are property tycoons. That is the way they look at your pubs, as property investments.' (Hutt, 1973: 58)

In 1989, the Monopolies and Mergers Commission ruled that the brewers' system of vertical integration was anti-competitive and Margaret Thatcher introduced legislation known as the Beer Orders which limited breweries to owning no more than 2,000 pubs and required them to permit tenants to offer a guest beer from a rival manufacturer.

The Beer Orders have been portrayed as the consequence of 'Thatcherite dogma' (McVeigh, 2010). In fact, the Monopolies Commission had concluded that the tied-house system was anti-competitive twenty years earlier in its 'Report on the Supply of Beer' (1969). At that time, and unlike many Labour MPs², the Commission did not recommend that the tie be abolished since it believed it to be better than the likely alternative. That alternative, as Christopher Hutt predicted in 1973, was that the brewers' pubs 'would probably be bought up in lots by property developers, or catering chains, who could be expected to do an even more severe asset-stripping job than the brewers' themselves' (Hutt, 1973: 145).

If critics are to be believed, Hutt's prediction was not far from the mark. In the course of two big sell-offs at the beginning and end of the 1990s, the lion's share of the brewers' pub stock was snapped up by PubCos. By 2003, when the Beer Orders were repealed, PubCos owned 32,500 pubs, 55 per cent of the UK's pub estate. This number has since fallen

2 'Early in 1973, more than 160 Labour MPs re-opened the issue by signing a motion calling for the breaking of the tie.' (Hutt, 1973: 146)

as a result of PubCos selling off their stock, but they still own forty per cent of Britain's pubs.

In 1989, the Monopolies and Mergers Commission had argued that action was needed because 'if no changes are made we believe it is inevitable that a very small number of brewers will increasingly dominate the supply of beer' (Haydon, 1994: 326). The Beer Orders failed in this respect. Today, four breweries produce 76 per cent of the beer drunk in Britain (Fair Deal For Your Local, 2013: 6) and it is difficult to argue with the Business and Enterprise Committee's view that the Beer Orders 'simply replac[ed] one group of powerful players with another' (BEC, 2009). On the other hand, the Office of Fair Trading has concluded that the ownership of so many pubs in so few hands has not been to the detriment of consumers (Department for Business, Innovation and Skills, 2013: 12). PubCos buy their drinks from more than one producer, leaving customers with a wider range of choice than they enjoyed under the old tied house system. Moreover, despite tenants having to pay PubCos more than the market price for their drinks, retail prices tend to be lower in their pubs than in free houses (BBPA, 2014: 47).

The property crash, recession and decline in pub visits hit the PubCos hard. Between 2007 and 2009, their share prices collapsed to a fraction of their former value. By 2013, Enterprise Inns and Punch Taverns each had debts of over £2 billion. It is therefore not difficult to argue that the PubCo business model has been a failure, but has it also led to the closure of thousands of pubs?

This question could be answered by looking at which pubs have been shutting their doors, but this is not a simple matter. CAMRA claims that closures in the PubCo sector have far outstripped those in the independent sector. They say that between 2008 and 2012 the number of 'non-managed' (mostly tied PubCo) pubs fell by twelve per cent while the number of independent, freehold pubs fell by only two per cent (Fair Deal For Your Local, 2013: 5). This, they say, proves that the PubCo model is 'causing thousands of pub closures up and down the country' (ibid.).

This is misleading. PubCos have certainly been selling off parts of their property portfolio in recent years, but the pubs they sell do not necessarily close. On the contrary, the figures suggest that most of the pubs they sell are transferred to the independent sector. Between 2009 and 2010, when everybody agrees the pub trade was struggling, the number of tenanted

pubs owned by PubCos fell by 3,500, but the number of pubs in the independent sector rose by 3,025 (BBPA, 2014: 68). As this was the only increase in the number of independent pubs since 1990, it is difficult to attribute it to a sudden surge in new builds. It is far more likely to have been due to the independent sector buying pubs from PubCos. These sell offs might, as CAMRA suggests, be proof of 'the calamitous reality of the pubco business model' (Fair Deal For Your Local, 2013: 5), but they do not prove that PubCo establishments are more likely to close their doors for good.

Merely counting the number of pubs in each sector of the industry does not tell us about the rate of permanent closures. CGA Strategy, which uses a slightly broader definition of a pub than the British Beer and Pub Association, estimates that there were 7,025 closures in the independent sector between December 2005 and March 2013, compared with 5,641 in the 'non-managed' (mostly PubCo) sector. This suggests that free houses have been struggling more than PubCo houses, particularly since the PubCo sector was larger in 2005 and therefore had more pubs to lose.

The picture changes when new openings are included. The independent sector opened 3,767 new pubs between December 2005 and March 2013 whereas the non-managed (mostly PubCo) sector, which tends to buy existing pubs rather than open new ones, had only 337 openings. If closures are offset by openings, the number of 'net closures' falls to 3,258 in the independent sector and rises to 5,304 in the non-managed sector. The tables now seem to have turned against the PubCos, but their larger number of net closures is almost entirely due to having had many more pubs in 2005. As a percentage of total pub stock, net closures represent 16.5 per cent of the non-managed sector and 14.6 per cent of the independent sector. Therefore, accounting for new openings (some of which are re-openings after temporary closures), rates of closure have been very similar in the independent and PubCo sectors.

The case against PubCos can only be maintained by portraying transfers from the non-managed to independent sector as closures, but this is clearly inappropriate. The All-Party Parliamentary Save the Pub Group (2013: 3, 16), amongst others, has been guilty of misrepresenting transfers as closures in an effort to support their claim that the 'the non-managed (largely leased/tenanted) sector has seen many more net closures than those of independent freehouses' and that 'PubCo pubs are being sold off for alternative use and bulldozed in their thousands'.

And whilst the British Beer and Pub Association is technically correct in saying that 'Free-of-tie pubs are closing at a faster rate than tied pubs' (Simmonds, 2013), the picture is incomplete unless it accounts for openings, which have been far more common in the independent sector. Taken together, the rate of net closures differs very little between the two sectors.

There is no doubt that PubCos have sold about a third of their properties in recent years. Some of them have been converted into shops and some have been demolished, but most have continued to function as pubs. The same is true of the pubs that have been sold by the independent sector. The mere fact that PubCos have sold large numbers of pubs to the independent pub sector does not mean that the 'tied pub model is a major contributing factor to an increased rate of pub closures', as CAMRA claims (CAMRA, 2014b).

Finally, it should be noted that if, as some suggest, viable pubs are being sold off to developers *en masse*, new pubs would open up to meet demand *if sufficient demand existed*. It is true, as CAMRA says, that a licence is required to turn a building into a pub whereas no licence is required to turn a pub into a dwelling or shop, but this is hardly an insurmountable obstacle. It was a common complaint in the 1990s that banks and churches were being turned into pubs and bars. Some operators, such as J. D. Wetherspoon have continued to convert existing buildings into pubs, but the wider failure to replace closed pubs with new establishments strongly suggests that the economic problem facing the pub trade is not lack of supply but lack of demand.

Economic pressures

Two economic factors are often blamed for the rise in pub closures: the economic downturn that began in 2008 and the availability of relatively cheap alcohol in supermarkets.

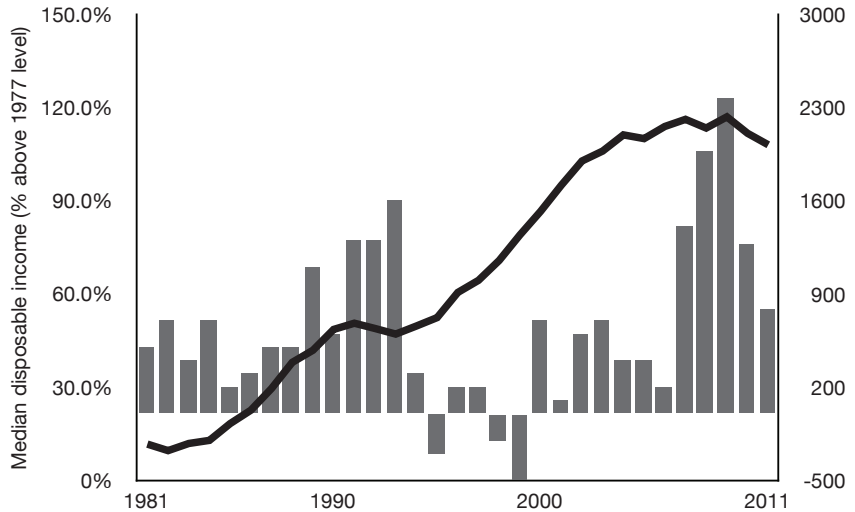
The credit crunch and beyond

Since 1980 there have been three recessions (1980-81, 1990-91 and 2008-09). In the 1980s and 1990s, recessions did not directly correlate with a spike in pub closures. More pubs closed in 1984 than in 1981, for example, and nearly twice as many pubs closed in 1989 than in 1990.

Nevertheless, there is some correlation between economic downturns and pub closures which becomes clearer if one looks at people's incomes rather than the nation's GDP. Figure 6 shows median disposable incomes³ (line) and annual pub closures (bar) (ONS, 2013; BBPA, 2014: 68). Average incomes tend to remain depressed after a recession has technically finished. As this graph shows, stagnant or declining personal incomes coincided with a spate of pub closures in the early 1990s and, to a lesser extent, in the early 1980s. Pub closures peaked during the most recent recession of 2008-09 and remained high in the period of wage stagnation that followed. It is therefore very plausible that the 2008-09 recession's effect on wages has been a major factor in the recent decimation of the pub trade.

3 Percentage increase above 1977 level of median equivalised disposable household income in 2011/12 prices.

Figure 6: Mean disposable incomes (line) and annual pub closures (bar) (1981-2011)



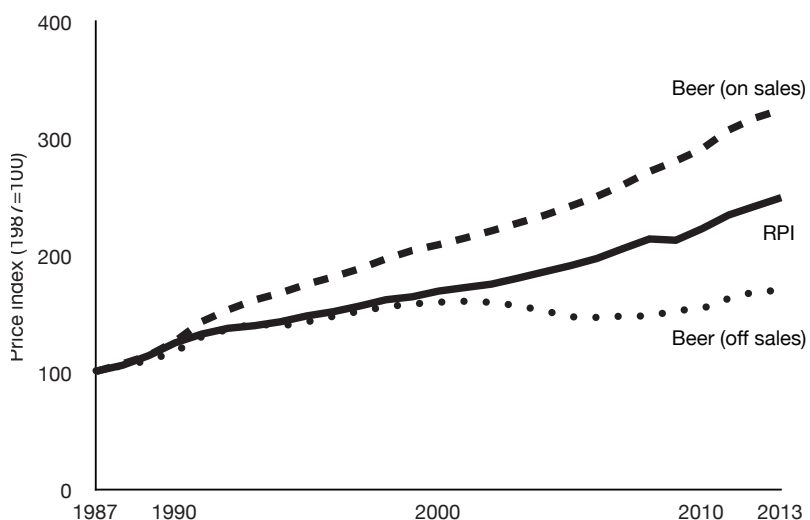
A few notes of caution should be sounded, however. Firstly, note that the recent flurry of pub closures began in 2007 when both the economy and disposable incomes were still growing. Indeed, disposable incomes were at an all-time high and, to borrow a phrase, the British people had never had it so good.

Secondly, although there is a short-term correlation between incomes and pub numbers, the long-term trends go in opposite directions. Since 1980, incomes have been generally rising and pubs have been generally closing. Pubs tend to close faster when incomes stagnate or decline, but they do not tend to open when incomes rise. Of the 31 years shown in Figure 6, only three saw a rise in pub numbers (displayed as 'negative closures' in this graph). There is, then, no consistent relationship between disposable incomes (or GDP) and pub numbers. It may be truer to say that recessions are the final nail in the coffin of pubs that are struggling for other reasons.

Prices and taxation

The price of a pint of bitter in a pub increased by fifteen per cent above the rate of inflation between 1979 and 1989 (Haydon, 1994: 327). As Figure 7 shows, pub prices have continued to rise in real terms. This is in contrast to the price of beer in the off trade which has risen by less than the rate of inflation (RPI) since the late 1990s and even fell in nominal terms in the early 2000s.

Figure 7: Index of beer prices in the on and off trade since 1987 against Retail Price Index (1987-2013)



The trend towards more drinking at home has already been discussed as one of the long-term cultural changes that have damaged pubs. Culture does not exist in a vacuum, however, and the economics of drinking play a part, but considering the huge differences between the price of on and off trade alcohol, it is surprising that only 51 per cent of those who drink at home mention price as a factor. The most popular reason, mentioned by two-thirds of home drinkers, is that they 'like to relax in the comfort of my own home' (YouGov, 2013: 10).

Many publicans have blamed their woes on the low price of alcohol in supermarkets. It is, however, the case that alcohol prices have *always* been lower in supermarkets and off-licences. Christopher Hutt complained in 1973 that supermarket prices for spirits were often lower than the wholesale price available to pubs (Hutt 1973: 71). The person who visits a pub knows that she can buy drink more cheaply in a supermarket or off licence. She visits the pub to buy more than a drink. She is buying service, warmth, clean glasses, company and perhaps entertainment.⁴ In short, she is buying an experience, but it is not an experience that she will buy at any price. The rising cost of a pint of beer in a pub is likely to be more of a deterrent than the falling cost of a can of lager, although both must play a part.

Why has the price of a pint in a pub been rising above the rate of inflation? In recent years, as in the 1990s, it has been largely due to taxation, particularly alcohol duty. In 2008, the government raised alcohol duty by six per cent in real terms and introduced a duty escalator that automatically increased alcohol taxes by two per cent above inflation every year thereafter. In January 2011, VAT rose from 15 per cent to 20 per cent. This, combined with falling real wages, made drinking less affordable. The escalator was finally abandoned in 2014 but the high taxes remain.

The duty escalator hit both the on and off trades, but, having driven down costs in the early 2000s, supermarkets were able to maintain the gap between themselves and the pubs. Pubs are also at a disadvantage thanks to the uneven burden of business rates, late night levies and (unlike supermarkets) having to charge VAT on food.

In their 2012 report *Pubs and Places*, the Institute for Public Policy Research (IPPR) argued that pubs should be given special protection for several reasons, including the following:

‘Pubs make a disproportionately large contribution to the public purse: every pint sold in a pub raises twice as much tax as that sold through the off-trade’ (Muir, 2013: 30).

4 ‘When you order a pint of beer and hand over your money, you are paying for a complicated package deal. As well as the beer in your glass, the deal includes the barmaid’s smile or the landlord’s bonhomie, the opportunity to buy a sandwich or have a game of darts, the chance either to find a corner to chat with friends or stand at the bar and meet a stranger to the pub. In other words to enjoy the intangible but crucial feeling which is called atmosphere.’ (Hutt, 1973: 13)

Whilst this true, it seems not to occur to the IPPR that the higher tax burden faced by pubs is one of the reasons they are closing down in the first place.

Regulation

The pub industry has experienced regulation and deregulation in the past decade. The Licensing Act came into effect in 2005, offering the theoretical possibility of '24 hour drinking', a term that was always loaded with hyperbole. In fact, a 2007 survey found that pubs extended their opening hours by a median average of just 27 minutes (Thompson, 2009). Although most pubs continue to close at the traditional time of 11 o'clock, the option for more flexible opening hours is likely to have been of benefit. The Licensing Act evidently failed to stem the tide of pub closures, but it is possible that the pub trade would have suffered even more without it.

The smoking ban

A very different form of regulation has had a more profound effect. Although only 20 per cent of British adults smoke regularly, smokers have always been disproportionately more likely both to drink and to visit pubs. A survey of publicans reported that 54 per cent of pub customers smoked in 2006 and it is highly telling that the same survey showed that this number had fallen to 38 per cent in 2008 following the introduction of smoking bans in Scotland (March 2006) and the rest of the UK (April and July 2007) (FLVA, 2008: 2). The survey also reported that there was a net reduction of 74 per cent in smokers' visits to pubs whereas there was only a six per cent net increase in nonsmokers' visits to pubs (*ibid.*: 2008: 3). These trends are supported by a mass of other data showing that the smoking ban has been highly damaging for many, but not all, pubs.

The hospitality industry felt the impact of the smoking ban almost immediately. In England and Wales, pub chains initially attributed their woes to the wet summer of 2007, but as beer sales continued to fall as winter set in, pub companies that had initially been quite optimistic about

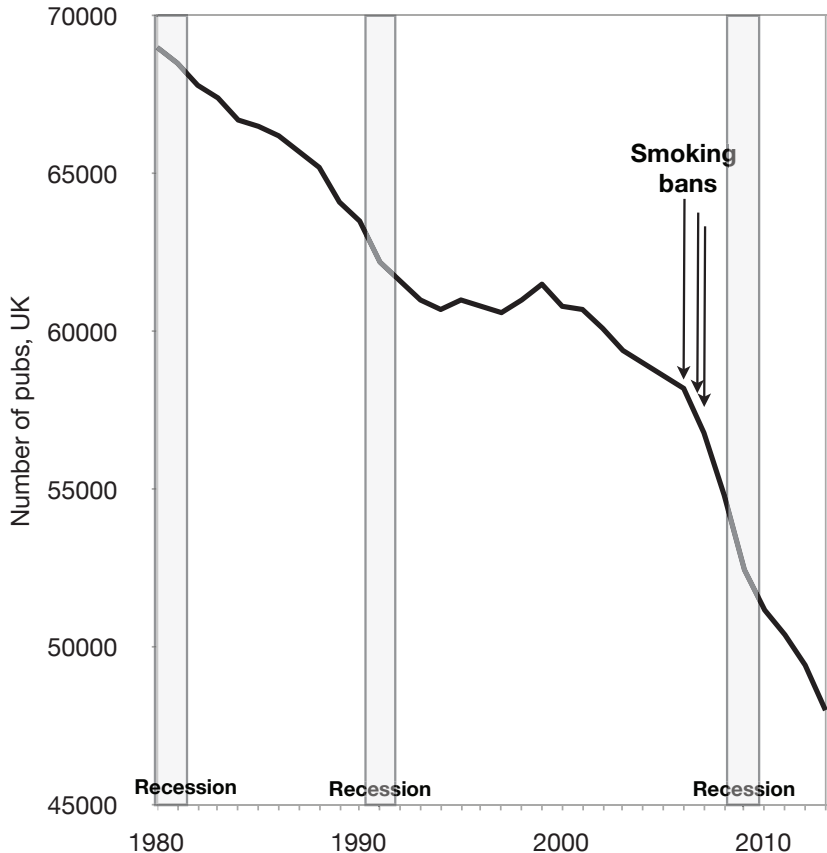
the smokefree era openly blamed the ban (Sharp, 2008; Bowers, 2008). PubCo share prices fell dramatically after the summer of 2007 and have never recovered.

The year-on-year decline in beer sales reached nine per cent by the end of 2007 and Goldman Sachs estimated in 2008 that the smoking ban had reduced profits in a typical tenanted pub by ten per cent (*Morning Advertiser*, 2008). Market analysts at AC Neilson reported that pubs sold 175 million fewer pints of beer in 2007-08 as a direct result of the smoking ban (*The Observer*, 2008). PricewaterhouseCoopers correctly predicted that 6,000 pubs would close by 2012 largely as a result of the ban (Walton, 2008).

A year after the ban was introduced in England, 77 per cent of licensees said that trade had suffered as a result (Harrington, 2008) and even five years later, in 2012, 68 per cent wanted the ban to be relaxed (Berry, 2012). The decline in pub numbers was mirrored by mass closures in the bingo industry which began in Scotland in 2006 before hitting the rest of the UK in 2007. More than a third of the UK's bingo halls have closed since 2005 (Attwood, 2007; Warren, 2014).

As Figure 8 shows, the UK's smoking bans correlate more closely with the collapse in pub numbers than any other factor, including the recession and the duty escalator. Corroborating evidence comes from Ireland which enacted its ban in 2004, in the midst of an economic boom, and yet saw an almost identical collapse in pub numbers. Ireland, Scotland, England and Wales all saw pub numbers decline by eleven per cent within the first four years of their respective smoking bans, despite different implementation dates (CR Consulting, 2010; BBPA, 2014: 68).

Figure 8: Number of pubs in the UK (1980-2013) with recessions (bars) and smoking bans (arrows)



It is now widely acknowledged by analysts, journalists, publicans and the government that the smoking ban has had a detrimental impact on the pub sector in general, with wet-let, land-locked and working class pubs suffering worst. The evidence is difficult to argue against and only a few anti-smoking campaigners have tried (Bauld, 2011). The IPPR, which supports the ban, acknowledges that it cost pubs an average of £6,000 each (Muir, 2012: 18) and the Department for Business, Innovation and Skills (2013: 13) acknowledges that 'the impact of the smoking ban' has been one of the main problems facing the pub trade. The question is not whether the smoking ban has had an adverse effect, but how many pub closures it is responsible for.

Chickens or eggs?

Although it might be possible to develop a regression model to estimate how many pub closures were caused by each of the factors discussed in this paper, it would be highly speculative. The causes of the post-2006 collapse interact in complex ways and there is not enough evidence available to isolate the impact of each.

The data raise several 'chicken or egg' questions. For example, are people drinking less beer because they are going to the pub less or are they going to the pub less because they are drinking less beer? Are people buying more alcohol at home because it is cheaper to buy from supermarkets or are people buying more alcohol from supermarkets because other factors, such as the smoking ban, has made drinking in the pub less appealing?

These questions cannot be answered categorically. We can, however, tentatively strip out long-term trends from more recent trends. Changing tastes, the shift towards home drinking and the increasing sale of alcohol in the off-trade are all long-term trends that do not sufficiently explain the rapid acceleration of pub closures after 2006. Based on the secular trend since 1980, I estimate that approximately 4,000 pubs would have closed between 2006 and 2013 without any new pressures. Since 10,000 pubs closed in this period, it seems that other factors must account for the closure of the 'extra' 6,000 pubs. The prime suspects are the smoking ban, the recession and the revival of the alcohol duty escalator.

Solutions?

Before discussing possible remedies, it is worth assessing the proposals of CAMRA, the IPPR and the Department of Business, Innovation and Skills, all of whom suggest that the solution lies in more, not less, government intervention.

CAMRA

Given CAMRA's preoccupation with PubCos, it is not surprising that their prescription for the ailing pub trade focuses on 'PubCo reform'. They are campaigning for 'guest beer rights' and the 'choice of paying a higher rent in exchange for being free to buy beer on the open market'. Both of these policies would sever the beer tie and fundamentally undermine the PubCo model.

The term 'guest beer' evokes an image of a cask of craft ale sat behind the bar of a picturesque tavern, but if a guest beer option was made available to PubCo tenants, it is more than likely that they would select their most popular lager as a guest beer, buying it at the market price and selling it at a higher margin. This would unbalance the pub franchise model of higher wholesale costs for alcohol and lower costs for property rent and other facilities. Whilst some campaigners would be happy to wreck the PubCo model, it should not be the aim of government.⁵

CAMRA also proposes making planning permission a legal requirement before a pub can be converted for other use or demolished. It is difficult

5 While this report was going to press, MPs voted in favour of an amendment to the Small Business, Enterprise and Employment Bill allowing tied pubs to buy their beer on the open market.

to see what this will achieve. There may have been instances where badly run, but viable, pubs are sold off to developers, but these sales take place on the open market where prospective publicans can make their own bid. The price may be too high for the pub to be sold as a going concern, but tying the sale up with red tape will not make it any cheaper for the publican. It is more likely to leave derelict pubs standing empty for long periods with no good reason.

The IPPR

In *Pubs and Places* (2012), the IPPR, a left-of-centre think tank, recommended that some pubs receive tax relief and be allowed to apply for third sector grants as 'community interest companies' (Muir 2012: 59). The IPPR accepts that regulation has placed a financial burden on pubs, but rather than abolish or amend costly legislation, it advocates 'providing some compensatory support for community pubs through other means' (Muir 2012: 19). In short, it wants taxpayer subsidies.

The IPPR's concern is limited to what it calls 'community pubs' which, it says, 'can be distinguished from town centre bars which serve mainly after-work or weekend drinkers and which have been the focus of concerns about binge drinking in recent years' (Muir 2014: 5). The IPPR says that community pubs have 'two distinct but intrinsically related functions. One is as a retail outlet to sell alcoholic drinks and the other is as a place for social interaction' (ibid.). If these are the criteria, it is difficult to see the distinction between community and non-community pubs in practice. Both are places of social interaction including, and perhaps above all, those which are associated with 'binge drinking'. Nevertheless, the IPPR not only wants 'community pubs' to receive state aid, it thinks that 'any business that also acts as a centre of community' should receive 50 per cent business rate relief (Muir 2012: 58).

The IPPR's approach exhibits some of the reactionary protectionism that is often found in the pub preservation movement. There is a long history of self-proclaimed champions of the pub being more concerned by pubs changing than closing. Christopher Hutt's 1973 polemic about the 'death of the English pub' was not so much about pubs dying as them being, in his words, 'tarted up'. Today, many of his complaints seem perverse, including his lament that 'Luxurious soft furnishings replace the wooden seats, wall-to-wall carpeting covers those worn-out old tiles, the ornate mirror and the dart-board make way for a set of tasteful hunting prints'

(Hutt, 1973: 116). For the IPPR, 'the traditional community pub is felt to offer certain things that are becoming rare in a society being shaped by global commercial pressures' (Muir, 2012: 40).

The problem with the IPPR's recommendations is that they are concerned with resuscitating one particular type of pub without addressing the underlying lack of demand. Using taxpayers' money to preserve a sentimentalised version of the 'community pub' is likely to deter innovation in an industry that has always been evolving and needs to adapt to changing tastes now more than ever. State funding and tax breaks for a select few pubs would distort the market in favour of loss-making businesses which would be incentivised to tick government boxes rather than meet demand. It may save a few pubs in the sense that the physical buildings would remain in tact, but some might wonder whether the IPPR's vision of public houses as day centres/crèches/post offices would preserve them as pubs in any meaningful sense.

The IPPR also supports minimum pricing, a policy that offers little hope for publicans. A 2013 YouGov survey found that only 15 per cent of drinkers would drink less at home if minimum pricing was introduced (YouGov 2013: 31). Of this minority, only 2 per cent said they would drink more in the pub as a result (ibid.: 34). In total, only 0.3 per cent of the survey's drinkers said they would drink less at home and more in the pub if minimum pricing was introduced. By contrast, 39 per cent said they would drink less in the pub and 50 per cent say they would drink the same amount in the pub (ibid.: 39). Minimum pricing will result either in drinkers drinking less or having less disposable income. Neither outcome would benefit pubs.

The Department for Business, Innovation and Skills

In June 2014, the Department of Business, Innovation and Skills responded to concerns about PubCos by unveiling a new statutory code for pubs. The final draft is unfinished at the time of writing, but it is likely to include a provision for tenants of large PubCos to request an independent adjudicator to set their rent if they feel that the PubCo's rent is too high. The aim is to stop PubCos squeezing tenants, who already pay a higher price for alcohol (the 'wet rent'), with an excessive 'dry rent'.

The government's explicit objective is to ensure that PubCo tenants are 'no worse off than their free-of-tie counterparts' (Department for Business, Innovation and Skills, 2014). This 'no worse off principle' (ibid.: 43) may be laudable in theory but it is unworkable in practice. It would mean that pubs which are badly run or suffering from low demand will be given lower rents by government diktat. The government has conceded that rents could even fall to zero under such a system (Bothwell, 2014). It is questionable whether this would be seen as 'fair' by more successful publicans in either the tied or free-of-tie sector, let alone by the PubCos themselves, but it would certainly create major distortions in the market, as the Royal Institute of Chartered Surveyors (2014) explains:

'By requiring all rental agreements to be based on valuation as opposed to market forces, it may significantly reduce the number of open market, freely negotiated transactions. Eventually, the number of open market transactions may fall to zero in the tied lease market, thus the market will become artificial. There will be no true market evidence. This may deter market participants (landlords) from investing in the sector. It will put pressure on existing landlords, including pubcos and brewers, to exit the market or find different methods of operation.'

In a market economy, rents are not set according to some objective standard, but by negotiation between two parties to find a mutually acceptable price. Both parties are free to walk away from a deal that is unacceptable or unaffordable. Some would argue that PubCos have the upper hand since they own the property, but this could be said of all rental negotiations. Unless you believe, as some anti-PubCo campaigners do, that PubCos wish to put their own tenants out of business, the landlord needs a tenant as much as the tenant needs a landlord. There is rarely

a need for an adjudicator to establish the market price because the rent agreed between two parties *is* the market price.

Furthermore, it is doubtful whether an adjudicator can make an objective assessment of a pub's rental value, let alone one which ensures that the tenant is 'no worse off' than his free-of-tie counterpart (London Economics, 2013: 13). No two pubs are alike and no two tenants are alike. Even if a surveyor could find two comparable pubs in the tied and free-of-tie sector, he would not have access to the financial accounts of the free-of-tie pub with which to make a calculation.

Real solutions

It is not the intention of this paper to prop up a dying industry. If pubs are closing because people prefer to drink at home (or drink less), it is not the government's business to rescue them. But if, as this paper argues, many pubs are closing because government policy has actively discouraged people from spending as much time in the pub as they would like, it is time to undo the damage.

The evidence strongly suggests that demand for pubs has been artificially reduced by excessive taxation and regulation. What follows is a four-point plan to undo some of the damage that has been wrought by government policy.

1. Reduce alcohol duty

British drinkers pay 40 per cent of the EU's entire alcohol duty bill (European Commission, 2014) and alcohol taxes are regressive (Snowdon, 2013). CAMRA has called for a freeze on beer duty until 2020. The government should go much further by halving all alcohol duty to bring it closer to the European average. This would reduce the cost of living, reduce alcohol fraud and create jobs in the hospitality industry.

2. Reduce VAT and set a lower rate for cooked food

VAT should be lowered from 20 per cent to 15 per cent to reduce the cost of living and alleviate the regressive effect of indirect taxation (*ibid.*). This would reduce the cost of food and drink in pubs and other venues. There is also a strong case for setting a lower rate of VAT on food served in pubs and cafés.

Currently, food sold for cooking and eating at home is exempt from VAT whereas cooked food is taxed at the standard rate. Rising rates of VAT, from 8 per cent to 15 per cent to 17.5 per cent to 20 per cent have worked in favour of supermarkets and against pubs, cafés and restaurants.

The tax discrimination between cooked and uncooked food is somewhat arbitrary, as highlighted by the controversy over the 'pasty tax' in 2012.⁶ As Table 1 shows, many EU countries have lower rates of sales tax for food served in bars and cafés (BBPA, 2014: 62). Typically, these countries have lowered the VAT rate by at least 50 per cent. The UK should do likewise.

Table 1: EU countries with a reduced rate of VAT for food sold in bars and cafés

	Standard VAT rate (%)	Bar and café food (%)
Austria	20	10
Belgium	21	12
Croatia	25	13
Cyprus	25	9
Finland	24	14
France	20	10
Greece	23	13
Ireland	23	9
Netherlands	21	6
Poland	23	8
Slovenia	22	9.5
Sweden	25	12

6 HMRC guidance says that food products which are 'sold warm simply because they happen to be freshly baked' can be zero-rated, leading to some confusion about which hot takeaway foods are subject to VAT. In 2012, the government's decision to tax all hot food at 20 per cent resulted in a successful and quintessentially British campaign to save Cornish pasties from taxation.

3. Amend the smoking ban

The Labour party's 2005 manifesto contained a pledge to ban smoking in pubs which sold food while promising that 'other pubs and bars will be free to choose whether to allow smoking or to be smoke-free' (Labour Party, 2005). After intense lobbying from anti-smoking groups, this pledge was abandoned and the UK was given one of the most uncompromising smoking bans in the world. This has been devastating for many pubs and there is clearly a market for indoor venues that allow smoking in one or more rooms. The UK should follow the lead of the many European countries that allow the hospitality industry to accommodate smokers.

4. Abolish cumulative impact zones and the late night levy

At a time when pubs are closing in their thousands, government policy prevents new pubs from opening in areas of high demand. England and Wales currently have around 180 'cumulative impact zones' in which there is a presumption that a new alcohol licence will be refused unless the licensee can demonstrate that it will have no adverse effect. This is a heavy burden of proof and it is costly to challenge the local authority in court. These zones should be abolished to allow demand to be met by the market. Sufficient laws already exist to regulate and, if necessary, close down venues that are associated with anti-social behaviour.

Similarly, the late night levy - an additional cost that pubs have to pay some local councils to open after midnight - should be scrapped. The levy has led to pubs in the late-night economy reducing their hours, thereby distorting investment decisions and reducing property values.

Conclusion

This study concludes that taxation, regulation and falling real wages have been the leading causes of the decimation of the UK pub industry since 2006, responsible for around 6,000 pub closures. The smoking ban and the alcohol duty escalator are particularly culpable.

Long-term cultural changes have been responsible for a further 4,000 pub closures. Other factors, such as the decline in alcohol consumption, may have played a part, but we cannot rule out reverse causality, particularly with regards to the exceptionally large decline in beer consumption.

The blame attached to PubCos has been greatly overstated - there is little evidence that their pubs have closed at a faster rate than those in the rest of the sector - and the solutions proposed by CAMRA and the government are misguided. A better approach would be to reduce taxes and cut regulation.

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