

The Effects of
PRIVATIZATION
of Alcohol Control Systems

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Alcohol Control Systems and the Potential Effects of Privatization

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Introduction

Alcohol regulation, government control and taxation have a long history in the United States and around the world. In the U.S., before Prohibition and leading up to it, states' policies and legislative solutions varied regarding the availability and the sale of alcohol. In 1920, the move to prohibit alcohol sales at different times led to the eventual ratification of the 18th or Prohibition Amendment. The national movement to Repeal Prohibition also envisioned the jurisdiction controlling alcohol sales mainly at the state level, with purity and control of illicit production as a federal responsibility. Prohibition was seen as a failure in general, especially in later years when widespread bootlegging was seen as undermining the rule of law. Following prohibition, however, there was no consensus regarding the best way to regulate alcoholic beverages. Some states chose to control alcohol sales through government ownership of wholesale or wholesale and retail businesses. Others chose to license private businesses with explicit separation of the wholesale and retail tiers to prevent competition among vertically integrated alcohol producer/wholesaler/retailer companies that were viewed as problematic in the era leading up to prohibition. Additionally, some states like Mississippi and many counties and towns within states, chose to remain dry taking advantage of the local option for stricter control embodied in the 21st Amendment. The continuing variation across states in demographics of drinking, heavy drinking, relative choices of beverage types and subtypes, and public opinions regarding alcohol suggest that there is still value in tailoring alcohol policy solutions to address the particular circumstances that each state or locality faces.

Alcohol control policies are multifaceted and range along a continuum. However, the Alcohol and Tobacco Tax and Trade Bureau (TTB) recognizes two distinct types of alcohol distribution; license (open) and control (monopoly). There is no simple dichotomy between license and control states as all states regulate the distribution of alcohol to some extent, be it through licensing

outlets, limiting hours of operation, taxation and other policies. The single feature that distinguishes license from control states is that in the control states, government takes ownership of the product at some point in the transaction cycle and therefore become the exclusive sellers in a particular sector of the business.

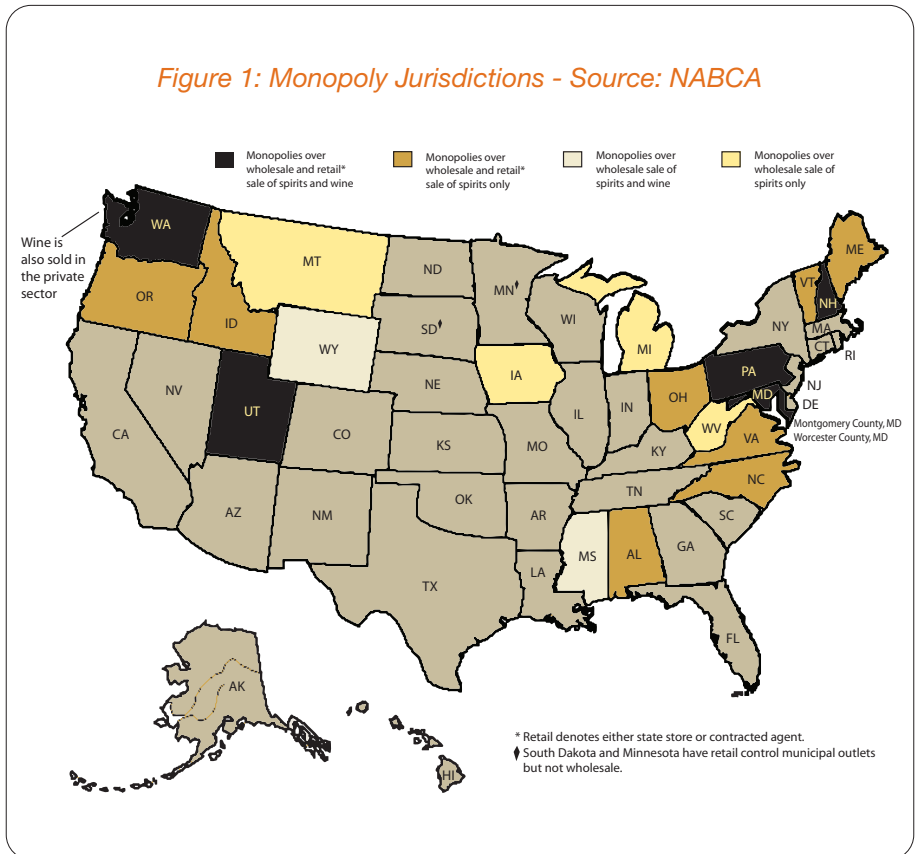
In recent years, there has been a tendency in the control states to privatize segments of its operations which results in less control over alcohol sales and distribution. It is important that state governments and citizens understand the implications of this trend toward privatization. Research establishes that the availability of alcohol substantially affects alcohol consumption and alcohol problems. As state control declines, alcohol tends to become more available. As alcohol becomes more available, consumption and problems predictably increase to the detriment of public health and safety. States that currently hold a monopoly over alcohol sales and are considering privatizing all or a part of their operation should ask very serious questions about the potential for increased alcohol-related problems.

The Current Situation in the U.S.

Figure 1 shows the 18 states where the government is engaged in, and has a monopoly on spirits sales at the wholesale level, and the 13 jurisdictions where the government also controls spirits sales at the retail level. Also shown are the 6 states with a wine monopoly at the wholesale level, and the 4 jurisdictions with a wine monopoly at the retail level. Some states also control higher strength beer. Utah and Montgomery County Maryland sell all three beverage types in state stores. Utah and Montgomery County Maryland sell all three beverage types in state stores.

It is important to recognize that the 32 license states do not have an entirely “free market”. States tax alcoholic beverages, restrict retail license numbers and hours of sale, and in most cases mandate a 3-tier distribution system where producers, wholesalers and retailers are separately owned. Therefore, while privatization of existing control systems would change the ownership of wholesale establishments and retail stores it would not lead to a perfectly competitive market.

Figure 1: Monopoly Jurisdictions - Source: NABCA



What is different about alcohol availability between license and control states?

As can be seen in Table 1, control states on average have fewer spirits stores, close stores earlier and have fewer selling hours than license states. An economic study of Pennsylvania about the number of stores and their locations found that the PLCB operates more stores than the number that would maximize profits and locates them in areas with attention to access for all residents. In contrast, open states tend to cluster stores in more densely populated areas.¹ Academic research suggests that both alcohol outlet density and the hours and days of sales increase alcohol-related problems including violent acts such as assaults, homicides and child abuse.² For example, a recent study found that persons living in areas with a high density of off-premise outlets had double the risk of being shot in an assault compared to those in lower outlet density areas.³

Table 1. Control vs. Licensed States: Alcohol Availability ⁷⁻⁹

	Control States	Licensed States	Difference
Number:	19	32	
Outlets per 100, 000 residents ages			
Wine	81	61	+20
Beer	110	69	+41
Spirits	14	30	-16
Closing Hours* - # states (percent)			
Before midnight (not including 12 am)	11 (58%)	10 (30%)	+28%
12 am or later	7 (37%)	16 (49%)	-12%
Local option/varies	1 (5%)	7(21%)	-16%
Per Capita Consumption (Gallons of Ethanol)			
Wine	0.27	0.35	-0.08
Beer	1.18	1.15	+0.03
Spirits	0.62	0.71	-0.09
Total	2.07	2.21	-0.14

Control state retail store employees are also likely to have better oversight and experience, resulting in fewer sales to minors. A recent study of retail stores' compliance with minimum purchase age restrictions in Norway and Finland found that state monopoly stores were less likely to sell to minors than private stores.⁴ Results of a recent U.S. study showed that states with retail monopolies had significantly fewer youth that reported drinking and binge drinking during a past 30 day period, as well as fewer alcohol-impaired drinking deaths (9.3% lower) than those in non-monopoly states.⁵

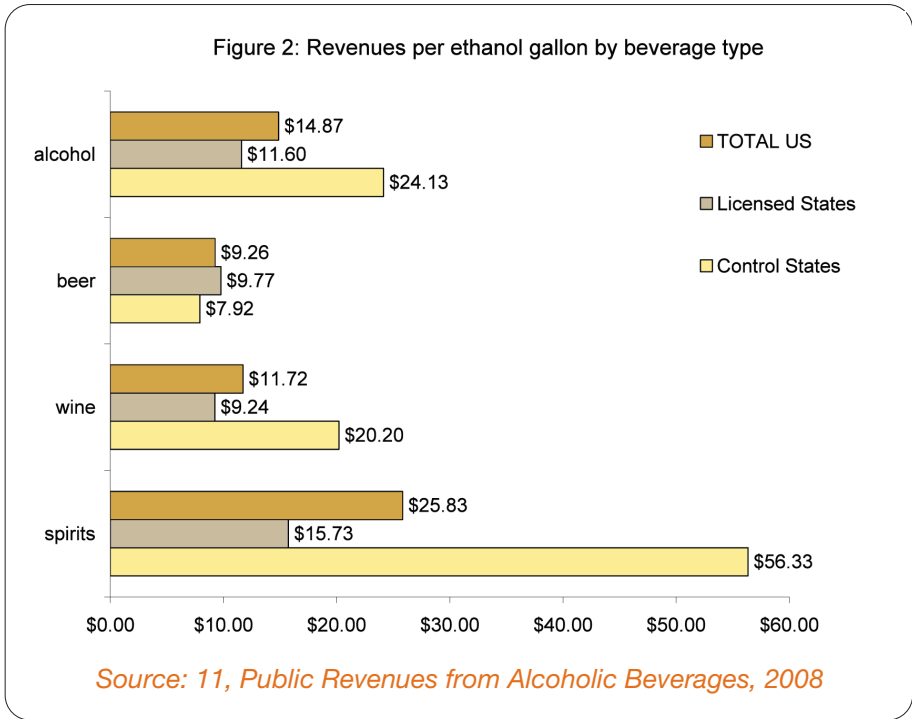
In control states there is stricter control or prohibition of point of sale advertising so that products with inappropriate listings, packaging or marketing are not sold. These states also serve as a watchdog over prices to prevent excessive temporary discounting on particular brands.⁶

What is different about alcohol sales and government revenues between control and license states?

As can be seen in Table 1 and for specific states in Table 2, control states have lower per capita spirits sales, and overall lower per capita consumption. They also have lower wine but higher beer consumption. Additionally, these states have substantially higher revenues per gallon of alcohol sold. The observation regarding lower spirits sales is confirmed in multivariate analyses where having a state monopoly on spirits was found to decrease its consumption.¹⁰ As seen in Table 2, per capita consumption of spirits varies between 0.43 gallons of pure alcohol in Utah and 1.05 gallons in Wyoming (New Hampshire sells 1.64 gallons but much of this goes to out of state buyers). In license states, the lowest consumption is 0.51 gallons in Oklahoma and in three other states (Wisconsin, Alaska and North Dakota) per capita consumption is about one gallon (not counting Delaware and Nevada where there are considerable out of state purchases).

Perhaps the most important difference between control and license states is the amount of revenue in total and per gallon of alcohol sold. As seen in Table 1 and Table 2, control states consume 13% less spirits and 7% less alcohol per person aged 15 and older (a desirable outcome from a public health perspective) while generating more than three times as much state revenue per gallon of spirits sold. Control state revenues over time also increase at a greater rate than open state revenues because control states primarily mark-up price. Open state revenues are based primarily on taxes per spirits gallon. Consequently, when the average price paid for spirits rises over time through inflation and quality upgrading (trading up), control state revenues will also rise while most open state revenues will only increase when

more spirits are sold. The 2008 revenue figures presented in Table 2 are 12.3% higher than 2006 revenues for control states but only 5.7% higher for open states, indicating that control state revenues grew at twice the rate over this period. See *Table 2 on pages 7-8, and Figure 2 below for more information.*



What has happened when alcohol sales have been privatized?

Research suggests that direct state control over alcohol sales, both in the United States and in countries such as Canada, Sweden, and Finland, reduces the availability of the controlled beverage types and overall alcohol consumption. Studies of the real and potential effects of privatization project that modifying and/or eliminating monopoly status would increase consumption and serious alcohol-related problems such as assault, motor vehicle accidents and deaths from alcohol-related causes.^{12,13} A substantial amount of reliable data links overall alcohol consumption in a society to a variety of alcohol-related harms including deaths and injuries from accidents, homicides and other violent assaults, suicide, cirrhosis and other diseases.¹⁴ Population levels* of alcohol consumption have

*Population levels refers to per capita apparent consumption, usually defined as the amount of alcohol sold per resident aged 15 and older in a particular geographic region. Analyses link increasing sales per person with increased rates of harms.

Table 2: Liquor/Distilled Spirits: Consumption, Revenues and Outlet Density by State ^{7-9,11}

State or Jurisdiction	Per Capita Consumption of Ethanol ^a	Total Revenue (\$ Thousands)	Revenue Per Ethanol Gallon	Outlets Per 100,000 Residents ^a
Control States				
Alabama	0.54	\$203,291	\$101.36	15
Idaho	0.64	39,737	52.27	14
Iowa (w)	0.66	60,045	37.92	24
Maine	0.77	29,741	35.12	2
MD, Montgomery Co	na	na	na	na
MD, Worcester Co	na	na	na	na
Michigan (w)	0.74	293,351	49.01	53
Mississippi (w)	0.66	60,495	40.03	22
Montana (w)	0.81	30,826	48.06	12
New Hampshire	1.67	73,409	40.86	7
North Carolina	0.54	226,372	57.40	5
Ohio	0.54	277,882	55.56	5
Oregon	0.77	149,265	63.35	8
Pennsylvania	0.56	272,651	47.54	6
Utah	0.43	67,440	78.64	8
Vermont	0.66	16,242	47.43	14
Virginia	0.55	234,439	68.59	5
Washington	0.70	281,813	75.78	6
West Virginia (w)	0.41	14,211	23.16	10
Wyoming (w)	1.05	10,316	23.13	29
Control States	0.62	\$2,341,526	\$56.33	14.00
License States	0.71	\$1,972,977	\$15.73	30.00

a – resident population aged 15 and older

(w) - indicates states with only wholesale (not retail) monopoly on spirits

na – data on spirits outlets are not available for these states.

Table 2, continued

State or Jurisdiction	Per Capita Consumption of Ethanol ^a	Total Revenue (\$ Thousands)	Revenue Per Ethanol Gallon	Outlets Per 100,000 Residents ^a
License States				
Alaska	1.00	\$19,340	\$35.84	76
Arizona	0.69	29,439	8.40	27
Arkansas	0.59	19,096	14.13	20
California	0.66	183,766	9.64	44
Colorado	0.94	24,785	6.68	41
Connecticut	0.81	30,115	13.18	40
Delaware	1.20	8,256	9.77	53
D.C.	na	4,224	6.09	45
Florida	0.84	223,755	17.63	13
Georgia	0.61	89,508	19.36	5
Hawaii	0.61	13,461	21.15	46
Illinois	0.68	122,273	17.61	60
Indiana	0.69	28,856	8.14	28
Kansas	0.61	39,336	29.20	32
Kentucky	0.60	22,181	10.68	104
Louisiana	0.78	19,077	7.03	na
Maryland	0.79	25,222	7.00	22
Massachusetts	0.78	46,526	11.20	31
Minnesota	0.96	70,027	17.49	na
Missouri	0.75	20,616	5.80	93
Nebraska	0.74	10,798	10.36	60
Nevada	1.24	25,278	10.02	na
New Jersey	0.81	79,303	14.08	25
New Mexico	0.78	18,312	15.01	57
New York	0.62	180,896	18.26	16
North Dakota	1.06	4,393	7.91	na
Oklahoma	0.51	46,866	31.03	19
Rhode Island	0.79	8,782	12.87	30
South Carolina	0.68	57,101	23.19	27
South Dakota	0.80	9,300	18.16	89
Tennessee	0.56	82,925	29.76	10
Texas	0.55	364,941	35.76	12
Wisconsin	0.99	44,224	9.79	43

also been linked to fetal alcohol syndrome, reduced worker productivity and increased crime.^{6,15} In general, privatization results in higher outlet density, greater physical availability, longer and later hours of sale and new elements in the marketing and sales processes, such as a greater commercial orientation towards alcohol sales and additional economic vested interests.¹² These changes may result in increased sales to underage and intoxicated patrons. There is often also increased consumption associated with privatization, at least in the short term. Results of the effects of privatization on price are less clear and would depend on a variety of factors, with some evidence of short term increases but long term declines in the real price of alcohol.^{16,17}

U.S.

Studies of individual U.S. states have shown a significant increase in the sales of the particular beverage that has been privatized, usually wine, but also small increases in alcohol sales overall.^{18,19} This is because wine, a relatively less popular beverage in the U.S., currently accounts for about 15% of alcohol sales. One of the few case studies of spirits privatization (Iowa) occurred at the retail level with the state retaining control over the wholesale tier. This change increased spirits consumption by 10% and overall alcohol consumption by 5%.^{20,21}

Canada

An analysis of the long term effects of privatization in Alberta, Canada, found increases. An analysis of the long term effects of privatization in Alberta, Canada, found higher prices due to increased costs and excess capacity. However, there were also more stores and greater availability, which resulted in more consumption despite the higher prices. The province, between 1994 and 2003, also collected significantly lower overall alcohol tax revenues (estimated to be \$500 million less) than would have been collected under government control.^{17,22} Further, a study of mortality trends in Alberta linked this privatization to increased suicide rates.²³

Results from analyzing wine privatization in Quebec, Canada in 1978 indicated that wine sales per capita increased by 10% and that this effect persisted over time. Sales of beer and spirits were not affected nor were there significant effects on total alcohol sales. Wine comprised only about 13% of the alcohol consumed in Quebec at the time. The effect was small relative to other studies, possibly due to the privatization occurring only for Canadian wines and not for the more popular imported wines.²⁴

In British Columbia (BC), Canada, a partial privatization resulted in an increase in the number of stores, but the government kept control of the wholesale tier and kept most of its retail outlets, so prices did not decline. Additionally, in BC there is a minimum retail price for each alcoholic beverage type. Consumption increased with more stores and with the percentage of

private stores in an area.²⁵ Further analyses of this privatization showed that the density of private stores increased alcohol-related deaths by 3.25% for each 20% increase in density for an area.²⁶

Sweden

In Sweden, spirits, wine and regular beer are sold only in government stores. Forecasts of the potential effects of privatization here, assuming that high tax rates remained and alcohol would be sold in specialty liquor stores, predicted an increase of 17% in overall alcohol consumption. This would result in significant increases in alcohol-related deaths, sickness absence days, homicides, suicides and fatal accidents.¹³ The same study found that allowing alcoholic beverage sales in supermarkets could increase consumption by 37% and result in an additional 2000 deaths annually.

What can we expect to happen to if alcohol is privatized in U.S.?

There would certainly be more retail stores selling spirits, either if this were allowed in stand-alone private liquor stores or in all supermarkets. These stores would probably be open later and would tend to cluster in more populated areas. The effect on prices is unclear with possibilities for some lower and some higher prices, depending on numerous factors, which makes prediction difficult. There would likely be more underage sales, leading to increased alcohol problems among youth, including violence and accidents.²⁷ There may be higher consumption, especially of spirits, among adults which may result in more alcohol-related deaths, accidents, and alcohol-dependent cases needing treatment. Also, there would be more product variety in some stores but less in others, especially in smaller towns. The degree of these changes would depend on factors related to the respective state's new alcohol taxation, licensing and regulations.

The Centers for Disease Control's Community Guide to Preventative Services does not recommend privatization for states with retail control, citing strong evidence that privatization results in increased per capita consumption, a well established proxy for excessive consumption and harm.²⁸

The most economically significant and immediate change resulting from privatization would be the decline in revenues to the state. On average, control states generate more than three times the revenue per gallon of alcohol sold as spirits when compared to license states. In the absence of a dramatic tax increase, which seems politically improbable, states would lose millions of dollars in revenues. For example, if Pennsylvania's revenues fell to the license-state average revenue per gallon of \$15.73 instead of the current \$56.33 per gallon, the state would lose more than \$200 million per year at a similar level of spirits sales. If, as seems likely, sales increased with

privatization generating more revenues, there would also be serious alcohol-related problems, which would incur costs to the state. This would offset those increased revenues.

Although difficult to estimate precisely, privatization could substantially increase the overall cost associated with alcohol consumption. Efforts to minimize this are important because the national economic costs from alcohol abuse have been estimated to be larger than government revenues from sales taxes, license fees, occupational taxes, import duties and excise taxes combined.^{15,29} Raising alcohol taxes is usually unpalatable to the public and strongly opposed by the alcohol industry.^{29,30} Further, in the U.S., alcohol taxes are not linked to the consumer price index or CPI. In real terms this means that tax revenues fall over time, while government and health costs of addressing alcohol problems go up.³¹ This makes it imperative to maintain existing regulatory measures such as government-run retail systems because they serve to reduce the costly problems associated with hazardous drinking.

Conclusion

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Communities are concerned about alcohol problems, including impaired driving, underage drinking and violent crime. All states, whether they control alcohol sales through a state monopoly or through licensing retail outlets, can help prevent alcohol-related problems. Control states should understand that a change to a private alcohol sales system is a “ratchet” policy: once a state eliminates its monopoly over a segment of the alcohol market, it is unlikely to reverse that policy and return to a control system. An effective state alcohol control system helps limit the physical and social damage caused by misusing alcohol, and reduces the costs borne from abusive alcohol consumption not only by drinkers but also by other citizens.³² Control over alcohol sales provides the means to limit availability in ways that can reduce consumption and problems. Therefore, control states should proceed slowly and cautiously when considering policy changes that reduce a state’s ability to control alcohol sales.

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