

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 US and around the world. In the US, before Prohibition and leading up to it, states varied widely in their alcohol policies and legislative solutions with moves to prohibit alcohol sales occurring at different times from the early 1900s through the eventual ratification of the 18th or Prohibition Amendment. The national movement to Repeal Prohibition also incorporated ideas that envisioned the jurisdiction for 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. However, following prohibition 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 the kind of competition among vertically integrated alcohol producer/wholesaler/retailer companies that was seen as most problematic in the era leading up to prohibition. And 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 each state or local area 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, through licensing of outlets, limitations on hours of operation, taxation and 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 they 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 their 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 towards privatization. It is well established by research that the availability of alcohol has substantial effects on alcohol consumption and alcohol problems. As state control of alcohol sales 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.

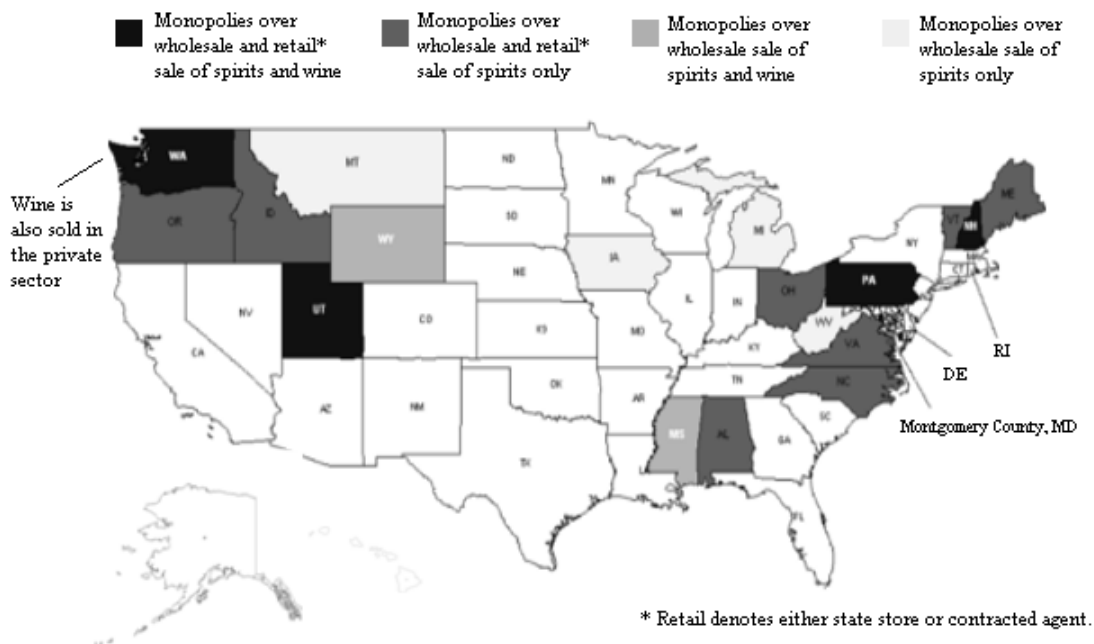
The current situation in the US states

Figure 1 shows the 19 states where the government is engaged in, and has a monopoly on, spirits sales at the wholesale level and the 12 states where the government also

controls spirits sales at the retail level. Also shown are the 6 states where there is a wine monopoly at the wholesale level and the 3 states with a wine monopoly at the retail level. Some states also control higher strength beer and 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”. They tax alcoholic beverages, restrict retail license numbers and hours of sale, and mandate a 3-tier distribution system where producers, wholesalers and retailers are separately owned in most cases. 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.

Figure1: Monopoly Jurisdictions



Source: NABCA

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

As can be seen in Table 1, control states have fewer spirits stores, close stores earlier and have fewer selling hours than license states on average. Academic research suggests that alcohol outlet density is positively correlated with alcohol-related problems including violence, such as assaults and child abuse. 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.¹

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.² Results of a recent US study showed that states with retail monopolies had significantly fewer youth reporting past 30

day drinking and binge drinking and had rates of alcohol-impaired drinking deaths that were 9.3% lower than those in non-monopoly states.³

In control states there is stricter control or prohibition of point of sale advertising, control over product listing so that products with inappropriate packaging or marketing are not sold and control over prices that can be used to prevent excessive temporary discounting of prices on particular brands.⁴

Table 1. Control vs. Licensed States: Alcohol Availability⁵⁻⁷

	Control States	Licensed States	Difference
Number:	19	32	
Outlets per 100, 000 residents ages 15+			
Wine	81	62	+19
Beer	110	70	+40
Spirits	14	30	-16
State Closing Hours - # states (percent)			
Before midnight (not including 12 am)	11 (58%)	9 (27%)	+31%
12 am or later	7 (37%)	16 (49%)	-12%
Local option/varies	1 (5%)	8 (24%)	-19%
Per Capita Consumption (gallons of ethanol)			
Wine	0.27	0.33	-0.03
Beer	1.29	1.26	+0.03
Spirits	0.61	0.71	-0.10
Total	2.17	2.33	-0.16

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 substantially higher revenues per gallon sold. They also have lower per capita consumption overall and lower wine consumption but higher beer consumption. This observation regarding spirits is confirmed in multivariate analyses by where having a state monopoly on spirits was found to decrease consumption of spirits.⁸ As seen in Table 2, per capita consumption of spirits varies between 0.41 gallons of pure alcohol in Utah and 1.03 gallons in Wyoming (New Hampshire sells 1.64 gallons but much of this goes to out of state buyers). In license states lowest consumption is 0.51 gallons in Texas and three other states—Wisconsin, Alaska and North Dakota—per capita consumption is above 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 14% less spirits and 7% less alcohol per person aged 15 and older (a desirable outcome from a public health perspective) while bringing in more than three times as much state revenue per gallon of alcohol sold as spirits.

Table 2: Liquor/Distilled Spirits: Consumption, Revenues and Outlet Density by State^{5-7, 9}

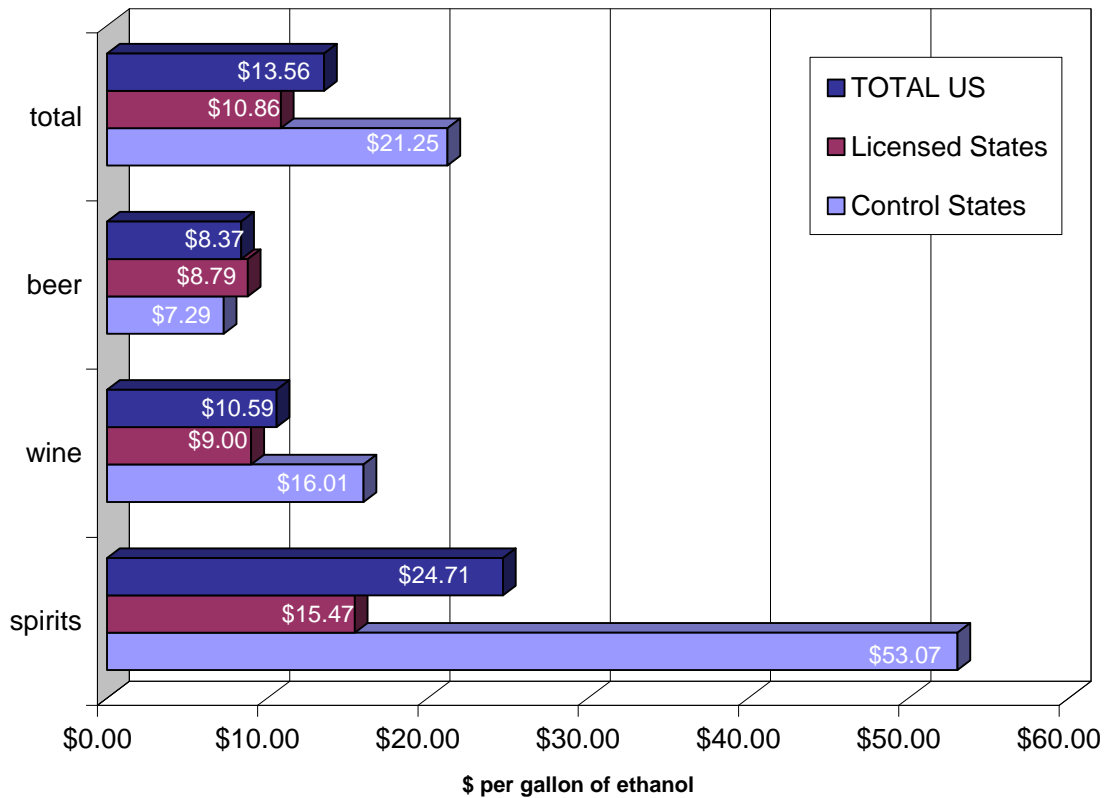
State or Jurisdiction	Per Capita ^a Ethanol (Gallons)	Total Revenue (\$ thousands)	Revenue per Gallon Ethanol	Outlets per 100,000 Residents ^a
Control States				
Alabama	0.52	\$116,742	\$62.29	15
Idaho	0.63	33,919	48.76	14
Iowa (w)	0.62	54,880	37.94	24
Maine	0.75	29,745	36.51	23
Montgomery Co	na	na	na	na
Michigan (w)	0.73	272,904	46.76	53
Mississippi (w)	0.64	54,276	38.06	23
Montana (w)	0.80	25,761	43.23	12
New Hampshire	1.64	67,752	38.05	7
North Carolina	0.52	195,402	53.83	6
Ohio	0.51	257,200	53.48	5
Oregon	0.75	132,660	60.80	8
Pennsylvania	0.55	289,590	53.40	6
Utah	0.41	53,600	71.07	8
Vermont	0.65	15,723	47.69	15
Virginia	0.54	211,041	64.83	5
Washington	0.69	252,780	73.52	6
West Virginia (w)	0.40	14,137	24.50	10
Wyoming (w)	1.03	6,175	15.16	30
License States				
Alaska	1.01	\$17,179	\$33.23	77
Arizona	0.66	28,467	8.07	28
Arkansas	0.56	17,611	13.44	20
California	0.68	176,547	9.41	44
Colorado	0.89	23,110	6.72	42
Connecticut	0.78	28,990	13.04	40
Delaware	1.17	8,049	9.87	53
D.C.	na	4,218	6.12	45
Florida	0.87	241,940	18.90	13
Georgia	0.61	82,633	19.04	5
Hawaii	0.70	14,489	20.70	46
Illinois	0.67	114,214	16.40	60
Indiana	0.60	24,644	7.81	29
Kansas	0.59	36,240	29.11	33
Kentucky	0.57	22,733	11.67	105
Louisiana	0.76	17,439	8.07	na
Maryland	0.81	24,132	6.95	23
Massachusetts	0.87	46,133	11.19	31
Minnesota	0.92	67,546	17.71	na
Missouri	0.71	18,937	5.76	93
Nebraska	0.64	9,954	10.73	60
Nevada	1.25	23,930	9.52	na
New Jersey	0.87	78,055	14.29	25
New Mexico	0.65	16,815	17.55	57
New York	0.66	175,468	18.18	16
North Dakota	1.03	3,924	8.02	na
Oklahoma	0.54	41,675	30.19	20
Rhode Island	0.84	8,450	12.40	30
South Carolina	0.73	57,990	23.40	27
South Dakota	0.68	8,267	17.99	89
Tennessee	0.53	75,253	29.37	10
Texas	0.51	311,638	33.54	12
Wisconsin	1.05	40,283	8.94	44
Control States	0.61	\$2,084,287	\$53.07	14.00
License States	0.71	\$1,866,953	\$15.47	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.

Figure 2: Revenues per Ethanol Gallon by Beverage Type



Source: 9, Public Revenue from Alcohol Beverages, 2006

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 other countries such as Canada, Sweden, and Finland, reduces the availability of the controlled beverage types and reduces overall alcohol consumption. Studies of the real and potential effects of privatization project that the modification and/or elimination of monopoly status would increase consumption and alcohol-related problems such as assault, motor vehicle accidents and deaths from alcohol-related causes.^{10, 11} A substantial literature 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.¹² Population levels of consumption of alcohol have also been linked to fetal alcohol syndrome, reduced worker productivity and increased crime.^{4, 13} 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.¹⁰ 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.^{11, 14}

U.S.

Studies of individual U.S. states have shown a significant increase in the sales of the beverage that has been privatized, usually wine, but also small increases in alcohol sales overall.^{15, 16} This is mainly due to wine being a relatively less popular beverage in the US, currently accounting for about 15% of alcohol sales. One of the few cases of spirits privatization, Iowa, occurred at the retail level with the state retaining control over the wholesale tier. This change was found to increase spirits consumption by 10% and overall consumption of alcohol by 5%.^{17, 18}

Canada

An analysis of the long term effects of privatization in Alberta Canada found increases in prices due to increased costs and excess capacity. However, there were also more stores and greater availability, which resulted in higher consumption despite the higher prices. The province also collected significantly *lower* overall alcohol tax revenues, estimated to be \$500 million less than would have been collected under government control between 1994 and 2003.^{14, 19}

Results from analyses of the privatization of wine in 1978 in Quebec Canada indicated that wine sales per capita increased by 10% and this effect persisted over time. Sales of beer and spirits did not appear to be affected and no significant effect was found 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.²⁰

In British Columbia 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 their retail outlets, so prices did not decline. In BC there are also minimum retail prices for each alcoholic beverage type. Consumption was found to increase with the increasing number of stores and with the percentage of private stores.²¹

Sweden

Forecasts of the potential effects of privatization of the Swedish alcohol monopoly, assuming that high tax rates remained and alcohol would be sold in specialty liquor stores, predicted increases of 14% in overall alcohol consumption, 18% in alcohol-related death rates, sickness absence days and homicides, 14% in suicides and 10% in fatal accidents.¹¹

What can we expect to happen if alcohol is privatized in US states?

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 at night. The effect on prices is unclear with possibilities for some lower and some higher prices, depending on a variety of factors making prediction difficult. There would likely be more underage sales, leading to increased alcohol problems among youth including violence and accidents.²² There would be higher consumption of alcohol and especially of spirits among the adult population as well, likely resulting in more alcohol-related deaths, accidents, and alcohol-dependent cases needing treatment. There would also be more product variety in some stores but less in others, especially those in smaller towns. The degree of these changes would depend on a variety of factors related to the new alcohol taxation, licensing and regulation choices made by the state.

The most economically significant and immediate change resulting from privatization would be the decline in revenues to the state. On average, control states generate three times the revenue per gallon of alcohol sold as spirits 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 \$15.47 instead of the current \$53.07 per gallon, the state would lose over \$200 million per year at a similar level of spirits sales.

Although difficult to estimate precisely, privatization would be likely to substantially increase the overall cost to society associated with alcohol consumption. Efforts to minimize costs to society are important because the national economic costs from abuse of alcohol have been estimated to be many times as large as the government revenues from alcohol including sales taxes, license fees, occupational taxes, import duties and excise taxes combined.^{13, 23} Raising alcohol taxes tends to be unpalatable to the public and is strongly opposed by the alcohol industry.^{23, 24} Further, because in the US alcohol taxes are not linked to the consumer price index, or CPI, in real terms tax revenues fall over time, while governmental and health costs of addressing alcohol problems go up.²⁵ This makes it all the more important to maintain existing regulatory measures such as government run retail systems because they serve to reduce the costly problems associated with hazardous drinking.

Conclusion

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 of retail outlets, can help to 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 appears to help limit the physical and social damage caused by the misuse of alcohol and reduce the costs borne by citizens that result from abusive alcohol consumption. Control over alcohol sales provides the means to limit the availability of alcohol beverages 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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