JANUARY 2014 NEWSLETTER

Revenue from Privatization may be Disappointing

By Pamela Erickson

States trying to raise revenue by selling off parts of their alcohol control system need to understand the history of such efforts. While selling off assets may produce a one-time windfall, the long term income production is often less than expected, and privatization of retail may exacerbate alcohol-related social problems. A new study by Roland Zullo and associates from the University of Michigan indicates that when control systems are replaced with a tax and license system, long-term alcohol-related income declines.

In the 1970's about one third of the states controlled alcohol through some type of direct ownership. Since that time, states have given up parts of these systems: first wine sales and then retail systems. Most recently, Washington State privatized and deregulated its entire wholesale and retail system. From the conclusions of the study, the short term gain from sale of the assets may not be worth it in the long run.

Zullo et al. studied alcohol monopoly systems with regard to four topics: alcohol consumption, state finances, alcohol related auto fatalities, and crime. They conclude that state monopolies have the potential to generate 2-3 times the alcohol-related income than private license systems do. And, if the state retains control of the retail sector, they reap the advantage of "... a reduction in alcohol-related social harm, especially alcohol-related vehicular fatalities and some types of crime." Some states have kept the wholesale business only which preserves much of the income gain, but then forsakes maximizing the public health benefits of public ownership. One reasons appears to be the evidence that the "state is a more responsible seller of alcohol product than private firms."

Here are some results:
"State ownership equates with lower wine and spirits consumption." The authors found that alcohol consumption was lower in control states compared with license states. Extant research indicates that consumption is associated with greater alcohol problems.

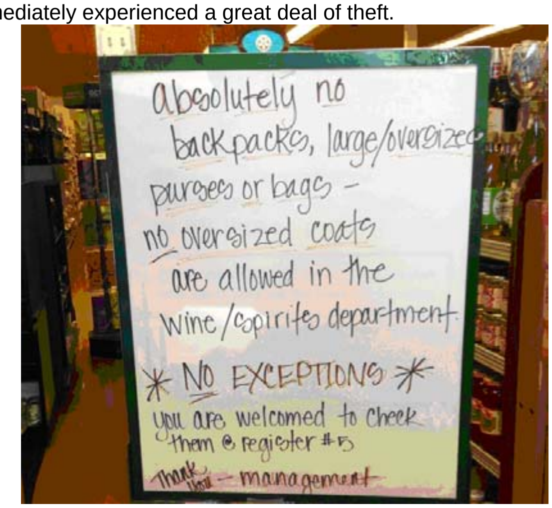
"Alcohol monopolies generate relatively more alcohol-related revenues." Alcohol revenue comes from alcohol taxes, liquor licenses, and sale of alcohol products. State monopolies get income from all three sources; license states get only taxes and license income. Thus, it stands to reason that monopoly states would receive higher alcohol-related income. But, it is a major difference: the gain can be 82.4% more if the state only owns the wholesale operation and 90% if it also owns the retail system.

"The findings imply that state ownership of retail reduces alcohol-related vehicular fatalities." Evidence also indicated that state control over retail reduces rates of assault, fraud, vandalism and domestic violence. This pattern did not hold for states that only owned the wholesale operation.

Today Control States are under pressure to completely privatize their retail operations and allow alcohol to be sold like any other beverage. Typically this means a larger number of outlets, less regulation and an increased number of days/hours of sale. Some of the proposed outlets lack the staff and other controls necessary to keep alcohol out of the hands of kids and intoxicated persons as well as to prevent theft. Policy makers should take the results from this study into consideration when asked to make changes to alcohol retail regulation.

For more information about this study, contact the lead author, Roland Zullo, Institute for Research on Labor, Employment, and the Economy, University of Michigan, 506 East Liberty Street, 3rd Floor, Ann Arbor, MI 48104

Sign in grocery store in Washington State that privatized and immediately experienced a great deal of theft.



Privatization, in general, may not always save money or achieve other stated goals

Privatization of any government function needs to be done very carefully as it is often complex. It may not result in less expense or may create new costs or problems. One study of federal government contracting found it did not save money at all. The study also found that the federal government has no system to determine if money has been saved or wasted via contracting out a service. http://www.washingtonpost.com/blogs/wonkblog/post/study-privatizing-government-doesnt-actually-save-money/2011/09/15/gIQA2rpZUK_blog.html

The League of Women Voters has studied privatization extensively and has a comprehensive position on the issue. They state, "...when governmental entities consider the transfer of governmental services, assets and/or functions to the private sector, the community impact and goals of such transfers must be identified and considered. Further, the LWV believes that transparency, accountability, and preservation of the common good must be ensured." The full position as well as several studies and papers can be found on the League's website: http://www.lwv.org/content/privatization-position

For more information, see www.healthyalcoholmarket.com Contact Pam Erickson at pam@pamaction.com

Public Action Management P.O. Box 4364 Scottsdale, AZ 85261 (503) 936-0443 pam@pamaction.com