Privatization of Liquor Sales: What the State Would Lose by Shutting Down ABC

By Rev. Mark H. Creech

Not since the days of Prohibition have North Carolina citizens considered a question of alcohol policy as serious as the privatization of liquor sales. Faced with a $3.5 billion budget shortfall to resolve in the 2011 legislative session, continued pressure from numerous highly paid lobbyists, and the potential for North Carolina to be surrounded by states that have licensed liquor sales, all have put and kept the issue at the forefront.

North Carolina policy-makers have been extremely active in their review of the ABC system for the sale and distribution of spirits in North Carolina:

* In December of 2008, the Program Evaluation Division of the NC Legislature released its report on the ABC system.

* Governor Perdue established a Budget Reform and Accountability Commission (BRAC) to assist her in formulating recommendations to improve government

efficiency, save money and improve revenues, which took up the issue of privatization in the fall of 2009.

* In 2010, a Joint House and Senate Study Committee was formed; this Committee released a report to reform the system, but not to privatize the system. The 2010 Legislature proceeded to adopt substantial "reform legislation" for the ABC system.

* In January of 2011, after an extensive internal analysis, review of an appraisal report, and meetings with interested parties, Governor Perdue publicly announced that the "juice is not worth the squeeze" in determining not to proceed with an ABC privatization initiative.

* Just last week, legislative leadership authorized a Legislative Research Commission to study a number of topics and issues, including the ABC System.

The LRC is authorized to study the following aspects of the current State and local alcoholic beverage control (ABC) in North Carolina:

(1) Whether the involvement in the distribution and sale of spirituous liquor is a core government function of State and local government.

(2) The privatization and divestiture of the ABC system, including potential recurring and nonrecurring revenue from the divestiture of the ABC system's current assets.

(3) A comparison of the North Carolina ABC system with other similarly situated states that have recently privatized or studied the privatization of their ABC systems, including the states of Ohio and Virginia.

(4) The impact that privatizing the wholesale and retail components of the distribution of spirituous liquor would have:

a. State and local revenues used for providing core services;

b. Mental health and substance abuse services;

c. Underage drinking;

d. Consumer access to spirituous liquor in both urban and rural areas; and

e. Product availability

(5) The potential for phasing out of local governments from the operation of the retail distribution of spirituous liquor.

(6) An analysis of local ABC Boards and local governments that may benefit from divestiture of the ABC system.

(7) A comparison of the current excise taxes and bailment fees applied to spirituous liquor in North Carolina versus other states.

Many lawmakers have embraced the notion of privatized sales as a free market boon to a struggling economy and an ailing state budget. But I would suggest that they should consider the potential for such a plan's extreme social costs, the harm it could bring to the public's health, as well as the long-term loss of annual revenues on both the state and local levels. Quite simply, privatization would increase liquor outlet density, hours of sale, spirits advertising and promotion, and ultimately alcohol consumption levels while undermining what has been a consistent revenue source.

In short, there are numerous significant benefits the state would lose by shutting down the ABC system for liquor sales.

North Carolina's Current System

When the 21st Amendment repealed Prohibition in 1933, control of the sale and distribution of alcoholic beverages was passed to the states. Because of this decentralization of alcohol control, there is a great deal of variation in regulatory and enforcement mechanisms used by the states to prevent the misuse of alcohol. The Bureau of Alcohol Tobacco and Firearms (BATF) recognizes two types of alcohol distribution systems: licensure (open) and control (monopoly). [1] The single feature distinguishing a "licensure" state from a "control" state is that control states take ownership of the product and retain the exclusive rights of sale, thereby having a greater level of control to prevent abuses. Licensure states have relinquished control on some or all levels to the private sector, whose primary motive is profit, not control.

North Carolina is currently one of eighteen control states in the nation. It retains control on both the wholesale and retail levels. The Tar Heel state is unique in that its system focuses on local control. The sale of spirits is allowed just where citizens have approved it at the ballot box. Upon approval of an ABC store referendum, local governments may appoint Alcoholic Beverage Control boards, which are the only legal entities in the state authorized for liquor sales off-premise. Profits from the sales are return to the local governments and communities.

At the state level, a three-member ABC Commission appointed by the Governor controls the permitting process, sets prices for liquor, administers ABC laws, authorizes the opening and location of ABC stores, and oversees the local ABC Boards.

In North Carolina, liquor is sold only in the state's 418 ABC stores. Prices are uniform. Advertising of liquor is extremely limited and not allowed by any ABC stores. ABC stores are not open on major Holidays, Sundays, or after 9:00 p.m.

The Impact of Privatization on Control

Obviously, North Carolina's system is comprehensive and one of strict controls designed to protect the public as much as possible from alcohol problems, while generating significant revenue for the state and local governments. Privatization's impact would depend on the degree the state relinquishes control to the private sector.

There are a number of scenarios for privatization of liquor sales which could range from the state contracting space for so-called "agency stores" inside grocery or convenience stores, to privatizing retail sales while retaining government control of the wholesale function, all the way to total licensure, meaning liquor could be sold in all places that beer and wine are currently available. Other options could involve auctioning off the ABC stores and auctioning the right to sell liquor in numerous other locations.

But whatever the means of privatizing, North Carolinians could expect a diminishing of control, which means more drinking in more places creating more alcohol related harms, and less annual revenues for government to use in addressing these problems.

In May 2010 the Centre for Addiction and Mental Health concluded in a report: "International evidence indicates that privatization of retail sales is expected to be associated with: increase in density of alcohol outlets, longer hours of sales, and increase in alcohol-related harm." [2]

The impact of privatization on the public's health, safety and welfare, as well as a number of other areas of concern should be carefully considered before public policy makers would privatize liquor sales.

- **Increase in liquor outlet density**

Under an open license system, North Carolina would have an estimated 2,139 retail outlets for the sale of spirits, based on the national average of 30 retail outlets for each 100,000 residents in a license state. [3,4] Alberta, Canada had 310 government run ABC stores. After privatization, that number grew to 983. [5] Even if lawmakers opted for a more conservative plan like the plan recently proposed by Virginia's Governor, the number of retail outlets in North Carolina would likely triple to more than 1,200 [6]

A larger number of alcohol outlets tends to be associated with greater consumption levels and more frequent alcohol problems.

"Study after study shows that having high outlet density leads to a variety of alcohol-related problems, especially for youth," [7] said Dr. Paul Gruenewald, principal investigator of a three-year study released in May 2009.

Prevention Research Center of the Pacific Institute for Research and Evaluation in Berkeley, California, demonstrated that communities containing larger numbers of stores selling alcohol are more likely to have higher levels of underage access.

"These findings show that high alcohol outlet densities in the community allow underage youth to get alcohol from various sources – not just by buying it themselves," said Dr. Men-Jinn Chen, the lead author of the study. [8]

A separate nine-year study released in 2008 confirmed that alcohol outlet density is also clearly linked to violence.

"The study found that, across Melbourne, the three types of outlets examined – hotel pubs, bars, and packaged liquor outlets – all had positive relationships to assault rates," said Michael Livingston, the study's author. "In other words, increasing the density of these outlets in a suburb leads to increasing rates of violence in that suburb." [9]

Robin Room, director of the Alcohol Education and Rehabilitation Centre for Alcohol Policy Research told Medical News Today that alcohol controls, that is, limits on the number of licenses, definitely matter, even if the public often takes them for granted as a part of the social scenery. "Rates of harm due to drinking can be influenced by these kinds of not very visible controls. Specifically the density of outlets is an important decision to consider in alcohol policymaking," Room added. [10]

As you are probably aware, US Centers for Disease Control (CDC)'s Task Force on Community Preventive Services announced earlier this year its decision and rationale for recommending against further privatization of alcohol sales. Based on its charge to identify effective disease and injury prevention measures, the Task Force on Community Preventive Services recommends against the further privatization of alcohol sales in settings with current government control of retail sales, based on strong evidence that privatization results in increased per capita alcohol consumption, a well-established proxy for excessive consumption.

- **Increased hours of sale**

At present, North Carolina ABC stores must close from 9:00 p.m. to 9:00 a.m., as well as on Sundays and major holidays. However, once liquor is in the hands of private retailers, these limits are no longer guaranteed. States that license alcohol retailers generally have longer and later hours of sale.

Not surprisingly, those longer hours of sale lead to greater alcohol use and related harms – especially motor-vehicle crashes, according to a report to be published in the December 2010 issue of the American Journal of Preventive Medicine.

The report, produced by an independent non-federal body of public health experts, says excessive alcohol use causes more than 79,000 U.S. deaths annually and contributes to health and social problems. It adds that policies that increase the hours of sale by as little as two hours contribute to excessive drinking, driving after drinking and alcohol related assault and injury. [11].

- **Increased advertising and promotion**

Advertising and promotion do not change the actual availability of alcohol, but there is no question that they change the perception of availability and the convenience of obtaining liquor by publicizing locations of sale, hours of sale, and price specials.

ABC stores do not promote the sale of their products. The state's laws are grounded in the conviction that North Carolina has traditionally rejected a culture that promotes or encourages the sale of spirituous liquor. This would not be a probable scenario under a privatized system because owners of private establishments must be able to advertise and will zealously advocate for the least restrictive advertising limits for optimum sales.

In states where spirits are privatized, liquor signage and promotions are considerably more prominent than in control states like North Carolina.

A myriad of studies have determined that youth are especially susceptible to alcohol ads. In fact, according to the American Academy of Family Physicians, "the degree of youth alcohol advertising exposure is strongly and directly associated with intentions to drink, age of drinking onset, prevalence of drinking, and the amount consumed." [12]

- **Increased consumption levels of spirits**

Research consistently shows in control states there are lower consumption rates – on average 14 percent less for spirits and 7 percent less for all alcohol products than licensure states [13]

To entertain the notion that North Carolina privatized liquor sales would not result in increased consumption levels, is simply an untenable position. No reputable scientific study supports this claim.

In fact, many proponents of privatization often argue that the sale of more liquor strengthens the economy and increases tax revenues. The liquor industry has pushed for Sunday sales of liquor in North Carolina and in other states, arguing that the additional day of sales would bring additional revenue to the state.

The Economics of Privatization

But is it really true that privatization provides significant gains for the economy or state coffers?

North Carolina's current ABC system keeps prices uniform and consistent statewide. A bottle of Scotch Whiskey costs the same in Asheville as it does in Wilmington. But in a privatized system, competition can drive prices down. Further, as market and health experts alike can attest, privatization lends itself to deep discounting or even the use of alcohol as a "loss leader" to lure in more drinkers. [14]

According to a 2009 report from the World Health Organization, "when other factors are held constant, such as income and the prices of other goods, a rise in alcohol prices leads to less alcohol consumption and less alcohol related harm, and vice versa." [15]

Other nations are currently facing widespread and devasting alcohol abuse and harm arising from low-cost alcohol products that are widely available.

It's the vice versa that public policy makers, as well as the citizens of this state, should find of concern. Alcohol is already causing plenty of harm, more harm than crack or heroin according to a Lancet study released in November 2010. Researchers rated 20 different substances from 0 to 100 on nine harms they can cause individuals and seven they can cause for society. Alcohol with an overall score of 72 was found to be the most harmful drug to society and the fourth most harmful drug to individual users. [16]

Beyond the lives lost in this state, the cost of irresponsible and destructive use of alcohol is estimated to be in the billions. The North Carolina Institute of Medicine Task Force on Substance Abuse Services reported to the North Carolina General Assembly in 2008 that the price tag for underage drinking alone is estimated at $1.2 billion annually. [17]

Nevertheless, proponents of privatization will argue that only a minority of drinkers is responsible for the abuse of alcohol and since most drinkers use it responsibly, it doesn’t matter who sells it. They contend that private wholesalers and retailers can handle sales more efficiently and that the state would still see plenty of revenue, initially from the sale of ABC property and then from license fees and taxes.

Still, these claims don’t hold up to scrutiny.

Through the sale of spirituous liquor in North Carolina’s ABC stores, approximately $275 million in revenue is generated each year. Distributions benefit the state's General Fund and the municipalities and counties where alcohol sales are allowed. Revenue distributions during fiscal year 2010 totaled $275,590,422.

If the state were to auction off the entire ABC system – stores, stock, etc. there would initially be a non-recurring influx of monies from those sales. But the ability of the state to control liquor sales and to generate revenue as it does now would be forever lost.

Additional one-time funds could be generated by license sales should the state auction licenses to the highest bidder as is recommended in one scenario or sell a set number of them in each region. But once this was put in place, the system would be in the hands of private retailers and annual revenue potential would drop significantly. For example, the privatization plan proposed by Virginia's governor would have resulted in a known $47 million reduction in revenue the first year. (18) By contrast, government control includes increased revenues through taxes with fewer outlets, resulting in less consumption.

The North Carolina General Assembly's Program Evaluation Division pointed out this fact in a 2008 study of North Carolina ABC, noting that states may not choose to convert from control to licensure because a reduction in state revenues from liquor is likely. [19] Control states collect more revenue because they control the price and receive part of the profits that accumulate. This does not happen in a private system where liquor prices are not fixed.

Moreover, in a control state like North Carolina some of the revenues go back to the communities, local law enforcement and human services. In a license state, the money goes into the pocket of the store owners. This presents another negative for privatizing. Last year, in addition to putting $210 million into the General Fund, ABC produced $45.8 million for county and city coffers. In addition, another $8.9 million went to local alcohol education, $6.8 million to local law enforcement, and $2.4 million to counties for rehabilitation, not to mention the more than $1 million that went to the Department of Health and Human Resources. These millions that are now collected from the sale of spirits would likely be significantly reduced or eliminated by a privatized system.

So while privatization proponents and lawmakers singing the budget blues may have their sights on short term gains, studies show license states face significant losses in the long run. Marin Institute researchers say that privatization in Virginia and Washington, two control states recently considering privatization, would decrease their annual alcohol revenues by $200 to $300 million over time. [20]

Although proponents of privatization argue that such losses could be made up via taxes on alcohol, these taxes rarely materialize as a solution. If competition drives prices down as privatization proponents contend it will, then tax revenues will also decline. Furthermore, the powerful spirits industry is most adept in exerting lobbying pressure on lawmakers not to raise taxes. In Virginia Governor Bob McDonnell started backtracking on the tax portion of his proposed privatization plan virtually from the outset, scaling back on proposed taxes after he came under fire from various trade groups.

Whether it’s to stimulate growth in the economy or to strengthen tax gains, alcohol never comes close to fulfilling its promises.

Holding Lawmakers Accountable

Whatever plan may be put forward by public policy makers, North Carolina citizens need to hold them accountable.

In a letter to lawmakers written earlier this year, the Governor stated: “Privatizing the ABC system is a multi-faceted issue that must be evaluated based on facts, analysis and outcomes of long term effects.” [21] Indeed the Governor is correct.

It is difficult to believe that a matter as complex as this one could be better addressed than the way it is now by ABC. Imperative to any system of alcohol control is to keep dangerous consumption levels down in order to protect the public’s health and to keep revenues up for state and local coffers. North Carolina’s current system of alcohol control effectively strikes this critical balance, making this state 48th in per capita consumption levels of spirits and 3rd in the nation in the amount of revenue garnered per gallon. [22] North Carolina's neighbor, South Carolina, which is a privatized state, by contrast ranks 25th in per capita consumption levels of spirits and 39th in the nation in the amount of revenues garnered. Another privatized neighbor, Tennessee is ranked close to North Carolina in consumption at 42nd but in revenue places as low as 23rd, demonstrating how difficult it is to strike that balance of simultaneously keeping consumption low and revenue high in a privatized system. [23]

Any plan put forward should guarantee it can do better than the one in place. Citizens must hold lawmakers accountable to this high standard and accept nothing less. If citizens do this, any proposal for privatization of liquor sales should not succeed.

*****

There are sincere differences of opinion among the citizens of North Carolina concerning the sale and consumption of liquor. Some take the matter very seriously while others wonder what the big deal is. Some even argue there are much more important issues to be considered.

But it is imperative to remember that alcohol is no ordinary commodity. It remains America's number one drug problem and this point cannot be overstated.
Few matters ever affect more the life, liberty, and property of the people. Alcohol policy may not be as urgent a priority as some issues are on certain occasions, but it should never be considered a low priority issue.

Neither is the issue of privatization a question of whether to drink or not to drink. The issue is really about alcohol marketing – the where, when, and how liquor will be sold - a matter that will unquestionably impact life in North Carolina on every level.

Critical to understanding this issue is the fundamental change in the way spirituous liquor will be made available if the state introduces privatization in any form.

It's a point worth reiterating, in a control system like North Carolina's; a monopoly is created by the state to provide access to liquor which keeps the focus on "control." The C in North Carolina's ABC system still stands for control. By contrast, private store owners are in business for one reason – to make money. They have direct incentives to increase their sales and to reduce or at least minimize taxes.

Seventy-five years ago, John D. Rockefeller, Jr. said, "Only as the profit motive is eliminated is there any hope of controlling the liquor traffic in the interest of a decent society. To approach the problem from any other angle is only to tinker with it and insure failure." [24] It is this unfettered push for sales by the private sector that would ultimately lead to lower prices that decrease state and local revenues and push up hazardous consumption levels, thereby driving up the cost of social services.

Should a proposal for privatization be offered, there is no greater issue concerning alcohol policy that has faced North Carolina's citizens since Prohibition.

Resources

(1) "The Effects of Privatization of Alcohol Control Systems," William Kerr, Phd., Alcohol Research Group, for National Alcohol Beverage Control Association.

(2) "Alcohol Retail Monopolies and Privatization of Retail Sales," CAMH By: Norman Giesbrecht (CAMH) in collaboration with Leda Grovestine (CAMH), Ida Hersi

(Toronto Public Health), Deb Kelly (MADD Canada), Janet McAllister (CAMH), Andrew Murie (MADD Canada), Ben Rempel (OPHA), Barney Savage (CAMH) and Victoria Van Gilst (Niagara Region Public Health)
May 14, 2010.

(3) U.S. Census Bureau: State and County QuickFacts. Data derived from Population Estimates, Census of Population and Housing, Small Area Income and Poverty Estimates, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits, Consolidated Federal Funds Report, Last Revised: Monday, 16-Aug-2010 08:49:40 EDT.

(4) "The Effects of Privatization of Alcohol Control Systems," William Kerr, Phd., Alcohol Research Group, for National Alcohol Beverage Control Association.

(5) Alberta Liquor and Gaming Commission, Liquor in Alberta — Quick Facts, January 2003.

(6) Proposed ABC Privatization Model, Staff Recommendation to Virginia Governor's Commission on Government Reform & Restructuring, September 8, 2010.

(7) Prevention Research Center, Pacific Institute for Research and Evaluation, Journal of Adolescent Health, May 2009.

(8) Ibid.

(9) "A Longitudinal Analysis of Alcohol Outlet Density and Assault," Alcoholism: Clinical & Experimental Research. Vol. 32, Issue 6, pages 1074-1079, June 2008.

(10) Ibid.

(11) "Effectiveness of Policies Restricting Hours of Alcohol Sales in Preventing Excessive Alcohol Consumption and Related Harms," American Journal of Preventive Medicine, Vol. 39, Issue 6, Pages 590-604, Dec. 2010.

(12) "Alcohol Advertising and Youth" © 2010, www.aafp.org, American Academy of Family Physicians.

(13) "The Effects of Privatization of Alcohol Control Systems," William Kerr, Phd., Alcohol Research Group, for National Alcohol Beverage Control Association.

(14) "Why We Can't Sell Alcohol Like Tires and Mayonnaise," By Pamela Erickson, Oregon Partnership, Aug. 18, 2010.

(15) Österberg E. Effects of price and taxation. In: Heather N, Peters TJ, Stockwell T, eds. *International handbook of alcohol dependence and problems: Part VI: Prevention of alcohol problems*. Chichester, John Wiley and Sons, 2001, 685–698. 247. Cook PJ. *Paying the tab. The costs and benefits of alcohol control*. Princeton, Princeton University Press, 2007.

(16) Drug Harms in the UK: a multicriteria decision analysis. Lancet, Volume 376, Issue 9752, pages 1558-1565, Nov. 6, 2010.

(17) The North Carolina Institute of Medicine Task Force on Substance Abuse Services, Report to the North Carolina General Assembly, 2008.

(18) “A $47 million hole in Virginia’s liquor plan is unacceptable,” The Washington Post, Thursday, Oct. 7.

(19) North Carolina’s Alcohol Beverage Control System is Outdated and Needs Modernization, Program Evalutaion Division, N.C. General Assembly, December, 2008.

(20) “Control State Politics: Big Alcohol’s Attempt to Dismantle Regulation State by State” A Marin Institute Report, Sept., 2010.

(21) Correspondence from Gov. Beverly Eaves Perdue to members of the North Carolina General Assembly, Feb. 26, 2010.

(22) *2007 State Data Book*, published by the Distilled Spirits Council of the United States.

(23) Ibid.

(24) Toward liquor control, Raymond B. Fosdick and Albert L. Scott; with a foreword by John D. Rockefeller, Jr., pub. 1933 by Harper in New York.