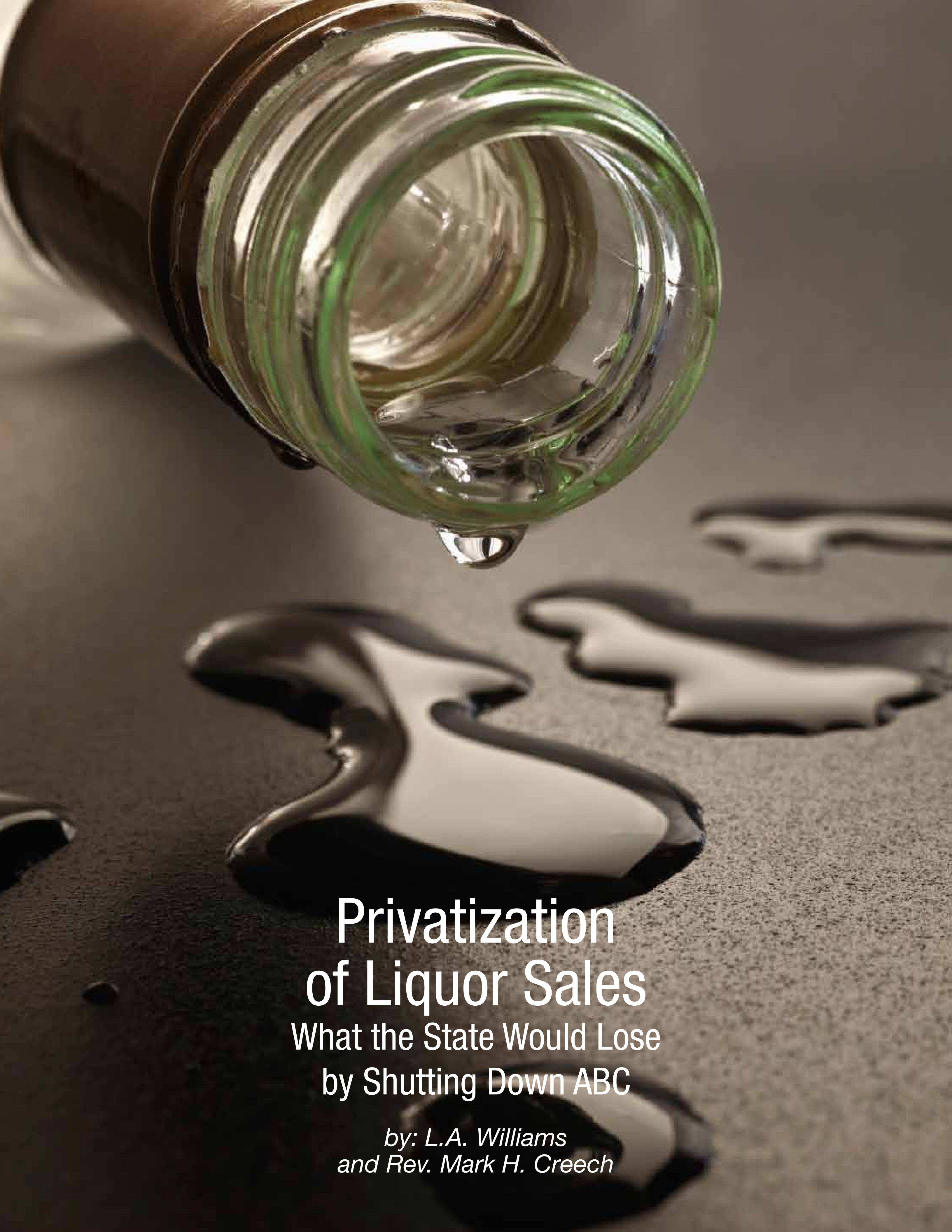

Privatization of Liquor Sales

What the State Would Lose by Shutting Down ABC

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NOT SINCE THE DAYS OF PROHIBITION HAVE NORTH CAROLINA LAWMAKERS CONSIDERED A QUESTION OF ALCOHOL POLICY AS SERIOUS AS THE ONE THEY MAY FACE IN 2011. A $3.5 BILLION BUDGET SHORTFALL, PRESSURE FROM NUMEROUS HIGHLY PAID LIQUOR LOBBYISTS, AND THE POTENTIAL FOR NORTH CAROLINA TO BE SURROUNDED BY STATES THAT HAVE LICENSED LIQUOR SALES COULD MAKE PRIVATIZATION AN ISSUE IN THE UPCOMING LEGISLATIVE SESSION.

Lawmakers rejected the idea of privatization in the 2010 session and opted to reform North Carolina's Alcoholic Beverage Control (ABC) system. An appraisal of the system has been ordered by the state ABC Commission, with the results not yet made public. Additionally, the Governor's Budget Reform and Accountability Commission (BRAC) is actively reviewing the issue.

Before lawmakers embrace the notion of privatized sales as a free market boon to a struggling economy and an ailing state budget, 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, liquor advertising and promotion, and ultimately alcohol consumption levels, while also undermining what has been a consistent revenue source for the state. 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When the 21st Amendment repealed Prohibition in 1933, control of the sale and distribution of alcoholic beverages was passed to the states.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 federal Bureau of Alcohol, Tobacco, Firearms, and Explosives (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 18 control states in the nation. It retains control at both the wholesale and retail levels. The Tar Heel state is unique in that its system focuses on local control. The sale of alcohol—whether malt beverage, wine or spirituous liquor (also called spirits)—is allowed only in jurisdictions where citizens have approved it at the ballot box. Upon approval of an ABC store referendum, local governments may appoint ABC boards, which are the only legal entities in the state authorized for liquor sales off-premise.

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, which are not open on major holidays, Sundays, or after 9:00 p.m.

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The Impact of Privatization on Control

Obviously, North Carolina's system is comprehensive and 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 to which the state relinquishes control to the private sector.

There are a number of scenarios for privatization of liquor sales that 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 reduction in control, which means more consumption of alcohol 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 that currently being 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.

Youth Access. “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]

Violence. 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 (i.e., 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]

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 liquor is 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

Research consistently shows that in control states there are lower consumption rates—on average 14 percent less for spirits and seven 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] 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 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]

Too High a Cost. 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. These claims do not hold up to scrutiny.

Through the sale of spirituous liquor in North Carolina's ABC stores, approximately $275 million in net revenue for state and local government 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.

One-time Funds. If the state were to auction off the entire ABC system—stores, stock, etc.—there

Adverse Affects of Privatization

- Increase in liquor outlet density: The number of retail outlets for the sale of spirits in North Carolina would jump to an estimated 2,139 locations, based on the national average of 30 retail outlets for each 100,000 residents in a license state
- Increased youth access: An increase in the number of locations selling alcohol affords youth, especially underage youth, with many more opportunities to obtain and consume alcohol.
- Increased violence: Increasing the density of alcohol outlets in a suburb leads to increased rates of violence in that suburb.
- Increased hours of sale: Under the state-controlled ABC system, liquor retailers must close from 9:00 p.m. to 9:00 a.m. every day and be closed on Sundays and major holidays. Stores in states that license alcohol retailers tend to have longer and later hours of sale.
- Increased advertising: ABC stores may not promote the sale of their products. In privatized states, liquor signage and promotions are much more prominent.
- Increased consumption levels: Control states have an average spirits consumption rate 14 percent lower than licensure states and seven percent less for all alcohol products.

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> 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.

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 in the way 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 result in a known $47 million reduction in revenue the first year.[18] Maintaining 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 the North Carolina ABC system, noting

that some 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.

Community Revenue. 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, and more than $1 million 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.

Short-term vs. Long-term. 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 is 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, Governor Perdue 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.

Although a specific plan has yet to be proposed, 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 heath 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] By contrast, South Carolina, which is a privatized state, 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 the Governor and lawmakers accountable to this high standard and accept nothing less. If citizens do this, it is highly unlikely any proposal for privatization of liquor sales would succeed.

Comparing System Outcomes

Licensure States Compared to North Carolina	2008 Sales Outlets	2006 Public Revenue		2006 Adult per Capita Liquor Consumption (Wine Gallons)
		Total Revenue	Revenue per Wine Gallon	
North Carolina	405	$269,974,000	$28.63	1.52
Texas	2,238	438,742,000	17.95	1.55
Tennessee	485	106,801,000	17.95	1.56
New York	2,482	455,076,000	17.75	1.84
Florida	1,888	586,987,000	17.55	2.53
Minnesota	2,272	153,441,000	15.14	2.76
Alaska	411	19,777,000	14.83	2.95
Oklahoma	561	54,724,000	13.47	1.63
South Carolina	970	75,790,000	11.75	2.16
Georgia	372	133,321,000	11.30	1.83
Kansas	718	36,240,000	10.88	1.71
Arkansas	461	27,188,000	7.81	1.74
Delaware	369	8,049,000	3.75	3.54

Notes: A wine gallon is equivalent to a standard United Stated bulk or liquid gallon. An adult is defined as a person of legal drinking age (21 or older), and the adult population was estimated as of July 1, 2006 by the United States Bureau of the Census.

Source: Program Evaluation Division based on data from the National ABC Association and the Distilled Spirits Council of the United States.

Conclusion

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 why the sale of alcohol is such a big deal. 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 is 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. On the other hand, 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 in 2011, it will be the biggest issue concerning alcohol policy that has faced North Carolina's citizens since Prohibition. ❖

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May 14, 2010.

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

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

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