Alcohol Retail Privatization
A Commentary

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In the current issue of the *American Journal of Preventive Medicine*, the Community Preventive Services Task Force (Task Force) provides a set of review and recommendation papers on the privatization of alcohol sales, which is very timely, to say the least.[1,2] In the November 2011 election, voters in Washington State endorsed Initiative Measure 1183, which has the effect of taking that state out of the business of selling spirits to the public. By June 2012, the Liquor Control Board will no longer operate state stores (or state "contract" stores) or set retail prices.

The state facilities are to be privatized by auction, and new retail locations will be licensed. Several of the other seven states that limit the retail sale of off-premise liquor to state stores (or contract stores) are actively debating the question of whether they too should leave this business to the private sector. This review[1] suggests that the consequences are likely to be increased drinking and abuse. On the basis of their summary of 21 studies of privatization of retail alcohol sales—in the U.S., Canada, and Europe—the authors and Task Force conclude that the median impact was a 48% increase in per capita sales of the directly affected beverage type, with little effect on the sales of other alcoholic beverages. They also note some evidence of an increase in the incidence of harmful consequences associated with alcohol abuse.

The conclusions of the review are based on evaluations of changes that differ with respect to location, beverage type, timing, and statistical evaluation method. To provide a more standardized assessment, I report the results of my own simple (and parochial) evaluation, limited to seven states that privatized the sale of wine between 1970 and 1985, concluding that the long-term effect on wine sales was proportionately very large—but that the effect on overall sales of ethanol likely amounted to just a few percentage points. I also discuss (separately) the effect of the lone historical case of a state (Iowa) that privatized liquor sales. One conclusion is that what we learn from the effect of wine privatization provides little guidance for what is likely to happen in Washington State or elsewhere if and when liquor sales are privatized.

Seven States That Privatized Retail Wine Sales

The trend of long-term liberalization in regulating alcoholic beverage markets in the U.S. is toward increased availability. One important aspect of that trend has been the move away from retail monopolies for the off-premise distribution of wine. Between 1969 and 1985, nine states privatized wine sales, including Washington (1969), Idaho (1971), Maine (1971), Alabama (1973), Virginia (1974), New Hampshire (1978), Montana (1979), West Virginia (1981), and Iowa (1985). Of these nine, I will be evaluating seven, omitting New Hampshire (sales are a poor approximation of consumption, given the large sale to Massachusetts residents) and Washington (privatized before my baseline date of 1970). These changes provide direct evidence on the effects of privatization.

A useful review by Her et al.[3] summarized the evaluation literature, documenting very large increases in the number of outlets in which wine was available, and mixed results on average prices. The published evaluations have focused on shorter-term effects, but a complete adjustment to the new regime may take several years. To provide a standard set of long-term results, I analyzed the proportional changes in per capita sales of wine, and of all alcoholic beverages, between 1970 and 1990, for seven of the nine states. The latter date ensures a follow-up period of at least 5 years. I compared the results with the proportional change in the U.S. as a whole during this period. This "difference in difference" analysis over a single time interval provides an estimate of the long-term effects of privatization.

Table 1[3,4] reports the results. During the period 1970–1990, the median of the proportional increases in per capita wine sales was 2.37, during a time when wine sales in the U.S. as a whole increased by a factor of just 1.32. A comparison of the medians, then, suggests that privatization in the long run enhanced per capita wine sales by about 80% (2.37/1.32 = 1.80).

An interesting feature (not shown in the table) of the increase in wine sales in these states is that it brought most of them in line with the national norm. Wine con-

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Table 1. Trends in per capita sales of ethanol from wine and all beverage types, 1970 to 1990

State	Wine monopoly ended	Wine: 1990/1970 ratio	Overall: 1990/1970 ratio	Overall: 1990/1970 ratio excluding wine
Alabama[a]	1973 and 1981	2.15	1.56	1.49
Idaho	1971	3.54	1.17	1.05
Iowa[b]	1985	3.32	1.22	1.15
Maine	1971	3.54	1.09	0.98
Montana	1979	2.37	1.07	1.00
Virginia	1974	1.62	1.03	0.97
West Virginia	1981	1.28	1.14	1.13
U.S.		1.32	1.05	1.02
Median of seven states		2.37	1.14	1.05

[a]Alabama ended its wine monopoly in two steps, the first limited to just three counties.
[b]Iowa also privatized the sale of spirits, in 1987.

stituted just 4.9% of ethanol sales in 1970 for the median privatization state (compared to a national average of 10.9%); by 1990, the median for those seven states had increased to 13.2%, very close to the national average of 13.6% in that year.

Table 1 also reports statistics on overall ethanol sales per capita. The median of the seven states increased sales by 14%, compared to the national average of 5%. When wine is omitted from these statistics, there is little difference (a 5% increase for the median state, compared with a 2% increase for the nation). It appears, then, that wine privatization was associated with an increase in ethanol consumption of about 9%, and that most of that was due to the increase in wine consumption. That result is not adjusted for the myriad other changes that may have occurred in the regulation and taxation of alcohol during this 21-year period, not to mention the changes in the demography and economy of these states. But perhaps the "9%" estimate can be accepted as a rough guide to the true causal effect.

My estimate of the effect of privatization on wine sales supports the conclusion of the Hahn et al. review,[1] to wit: "The evidence consistently showed that privatization of retail alcohol sales was associated with a substantial increase in per capita sales of the privatized beverages." It appears that most states that privatized wine sales were well below the national average in the proportion of ethanol consumed in the form of wine, and privatization was associated with bringing the state into line with the national average.

Iowa's Privatization of Spirits

As mentioned in the review,[1] only Utah, Pennsylvania, and two counties in Maryland still monopolize the retail sale of wine. Those states and six others hold a retail monopoly on the off-premise sale of spirits, although with the Washington initiative it appears that that number will soon be diminished by one. The direct evidence on the effects of privatizing liquor sales in the U.S. is limited to the case of Iowa. The Iowa experience suggests that the results on wine privatization are not necessarily a good guide for liquor privatization.

Iowa privatized wine sales in 1985 and liquor sales in 1987; between 1984 and 1990, wine sales increased 50%, all the more impressive given that in the Midwest region as a whole wine sales were actually declining. On the other hand, the sale of spirits during the same period *declined* by 11.5% in Iowa, very much in line with the 11.9% decline across the Midwest, and within the range of changes experienced by states bordering on Iowa.[5] Thousands of independent liquor stores opened for business following privatization, but the effect on sales appears to have been negligible.

Concluding Thoughts

Whether Washington State and others that may follow in its path will be as fortunate as Iowa could depend on the specifics. The choice between a state monopoly and a license system is not binary; the effects on consumption and abuse may well depend on factors influencing price, including excise tax rates and licensing fees. The evidence that the price of liquor influences consumption and abuse is stronger than the evidence regarding increased availability.[5] For wine, however, it does appear that the switch from state monopoly to licensing of private outlets tends to cause a notable increase in consumption.

In projecting the effect of liquor privatization in the U.S., then, we can either turn to the single example that is directly on point—Iowa—or assume that the numerous instances of wine privatization do provide guidance. I tend to be skeptical of basing predictions of the effect of liquor privatization on the effects of wine privatization.

Washington State will provide the second case in the U.S. for learning the effects of privatization of liquor sales. Perhaps a small portion of the yield from the auction of state

stores could be devoted to a systematic evaluation. Given the high stakes with respect to alcohol-related injuries, chronic disease, family welfare, and productivity, we need to know.

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