LIQUOR PRIVATIZATION

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PENNSYLVANIA SENATE LAW AND JUSTICE COMMITTEE

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Good morning. I am Nathan Benefield, Director of Policy Research for the Commonwealth Foundation. We are a nonprofit, independent public policy research and educational institute based in Harrisburg. I am joined by Dr. Antony Davies, an associate professor of economics at Duquesne University who co-authored a study commissioned by Commonwealth Foundation on the social impacts of liquor control.

Before I turn it over to Dr. Davies to discuss his research, I'd like to address a few of the myths circulating about privatization of the state stores.

First, some have questioned the amount of the upfront windfall the state would receive from auctioning off licenses for wine and spirit sales by comparing the license prices in other states. This is not an apt comparison. For starters, Pennsylvania state stores control sales of both wine and spirits, or hard liquor; many other states that privatized only had control over spirits. Further, Pennsylvania has far fewer retail stores than other states per capita, with just over 600 outlets. While a proposal from Rep. Mike Turzai would auction of 750 retail licenses, Pennsylvania would need about 3,000 liquor stores just to be at the national average. The number of liquor licenses to be offered will undoubtedly affect the price of the licenses, as well as the degree competition among stores and options for consumers—and therefore should be carefully considered by legislators debating privatization.

Privatization would also entail more than just licensing retail stores, but offer licensing for wholesale operations—that is, the distribution of wine and spirits to restaurants and bars. The value of wholesale licenses could be equal to that of the retail stores. Privatization would also involve selling off the entire inventory of the state liquor stores.

We will never know the true value of privatization until taking up competitive bids for licenses—and legislators should work to ensure that privatization involves an open and competitive bidding process—but we believe $1 to $2 billion in upfront fees is a reasonable expectation.

Second, there is the idea that state stores provide $500 million each year to the state. However, most of this revenue (about $400 million) is from state alcohol taxes and state sales taxes. The rest—considered "state stores profits"—is really just based on the markup on the price of liquor, or an implicit tax on consumers at the government-run stores.

This revenue would be replaced by taxes under a license scheme. Lawmakers will set tax rates—either using the current liquor tax structure or replacing it with a different alcohol tax, such as a gallonage tax—and can set the rate to match current revenues from taxes and state store markup and still offer lower prices.

Additionally, by relying on private vendors, the state will collect corporate income taxes and other business taxes from operators, that government stores don't pay. And by improving service, selection, and reducing prices, Pennsylvania can recapture some of the revenue and economic activity lost to other states through "border bleed."

Finally, there is the idea that Pennsylvania's control system provides the best protection against underage drinking and alcohol abuse. Yet data from the National Survey on Drug Use and Health rank Pennsylvania middle-of-the-pack, or worse, on rates of underage drinking and binge drinking. According to Mothers Against Drunk Driving (MADD), Pennsylvania ranks 30th in DUI-related accidents per capita (1 being best, or fewest DUI-accidents). In contrast, neighboring New Jersey, has ***three times*** the number of liquor stores (in a state two-thirds as populous and much more geographically concentrated than Pennsylvania) and only has about **one-third** the number of alcohol-related traffic fatalities.

In fact, the Pennsylvania Liquor Control Board's own 2009 report to the General Assembly (ordered by Act 86 of 2006) concluded that the state's college-age student drinking rates are near the national average, and high school drinking rates are **higher** than the U.S. average. If state control of liquor sales were a driving factor in underage drinking, alcohol abuse, or drunk driving, Pennsylvania should be number one or two on every measure, but this is clearly not the case.

The fact that the agency charged with regulating alcohol sales is also the primary seller of alcohol in the commonwealth is a clear conflict of interest. As evidenced by the fact the Pennsylvania Liquor Control Board spent $90,000 per store in advertising last year, implemented an impractical "wine kiosk" program, began operating "wine boutiques," and spent hundreds of thousands to upgrade its website, the agency puts far more effort into ***pushing*** alcohol sales than in controlling the market. Getting state government out of the sales business and allowing the PLCB to focus on enforcement of alcohol laws is not only a good economic and fiscal policy, but good social policy.

With that I will turn it over to Dr. Davies, who will discuss further the comparisons between control and license states, and the social effects of liquor privatization.