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POLICY NOTES

Modernizing Washington's Liquor Control System

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In a new study, "A Policy Guide for Budget Reform," Washington Policy Center suggests ways to modernize the liquor control system by selling off the government's statewide chain of liquor stores. The move would help streamline government and reduce the deficit.

On December 5, 1933 Prohibition ended and the sale of alcohol was re-legalized with ratification of the 21st Amendment to the Constitution. The Amendment includes a specific exemption to the interstate commerce clause. It empowers states to develop their own controls on the sale of intoxicating liquor within their borders in order to meet public safety and health standards.

For the past sixty-nine years Washington has used a government monopoly model, in which the state is the only entity allowed to sell liquor to the public. Privatizing the sale and distribution of liquor would improve enforcement of existing liquor laws, reduce taxpayers' financial risk, potentially increase revenue to the state and enhance efficiency and service in the sale of liquor and spirits.

A New Era of Awareness

Things have changed since 1933. Private companies now have methods of monitoring and limiting the sale of alcohol to minors that were not available in the early part of the last century. Sophisticated identification systems, random compliance checks by state and local authorities, and a heightened awareness of the dangers of alcohol abuse make the outdated limitations of the state's monopoly unnecessary.

Twenty-eight other states currently allow the private sale and distribution of alcohol. Among those states, Iowa and West Virginia recently privatized their systems. In both states, consumption fell following privatization, proving that new technology, combined with additional agents on the street, can lead to better enforcement of existing liquor control laws.

Improved Enforcement

Except for allowing a liquor sales clerk to be a private employee rather than a public one, privatization would retain all the rules in current law that regulate the sale of alcohol. State liquor control agents would have the same powers they have now to enforce liquor laws. Allowing private sales would free the state from running a multi-million dollar retail business and would permit state employees to focus solely on policing alcohol sales. The state would be better able to promote public health and safety because it would not be trying to sell alcohol while also restricting its use.

Privatization could actually help enforce the state's current liquor laws. In a 1994 study, the chairman of the state Liquor Control Board (LCB) supported privatization of alcohol sales. The study estimates that privatization of the sale of wine and spirits in Washington would allow the state to nearly double the number of enforcement officers from 84 to 156.

Currently the state operates more than 150 liquor stores, opening the LCB to potential conflicts of interest between enforcement officials and state employed store operators. Agency employees that enforce liquor control laws must also police their own friends and fellow state employees. Privatization would create a more effective regulatory structure that eliminates the conflict of interest between the seller and the enforcer, ensuring vigorous enforcement takes place equally at all stores.

Reduced Financial Risk

Privatization would relieve the state of the financial risk of purchasing, storing, distributing and selling liquor to Washington residents. For example, the Liquor Control Board has reported that construction of its new 160,000 square foot warehouse was months behind schedule and more than $5.5 million over budget. Taxpayers will shoulder those costs through additional surcharges applied to the sale of liquor at state stores. With privatization, taxes on liquor sales would continue to be collected, but taxpayers would no longer be required to support a widespread distribution and sales network.

Potential Increased Revenue

One argument in favor of the existing state monopoly system is that it appears to generate revenue that is returned to the state general fund. The problem with this view is that the true cost of operations is not usually considered in the state's analysis. Things like deferred maintenance on state-owned buildings, inventory carrying costs, long-term capital and employee retirement costs are often left off the state's balance sheet. As a result, the current expense budget may not account for the full cost of running the public liquor sales and distribution system.

Under privatization tax money currently spent on warehouses, delivery trucks, storefronts, future capital expenses and state employee retirement benefits could be redirected toward increased enforcement or to the general fund. In addition, existing private stores that begin selling liquor would pay Business and Operating tax on those sales, and private operators who assume ownership of state-owned liquor stores would begin paying property and business taxes on businesses that are now tax exempt. This represents revenue the state and counties do not currently collect.

Enhanced Efficiency and Service

Too many people think that the way privatization saves money is through paying lower wages to workers. That is not true. The most significant way private ownership reduces cost is through efficiencies and innovation. The other likely advantage of private management, of course, is better customer service. That is what occurred when the state allowed wine to be sold in private stores. Now there is wider choice in wine sales and private stores provide services not found under a state monopoly.

Privatization would serve the interest of the people of Washington by intensifying the enforcement of state liquor laws (through increased focus on policing and inspection efforts), improving service and choice to the public, and saving public funds by reducing the state's infrastructure costs. Privatization would also likely increase state and county tax revenues by ending current exemptions and broadening the tax base.

The creation of the current state monopoly liquor control system was Washington's response to the repeal of Prohibition in the 1930s. Privatization would create a modern liquor-control system based on market competition and enhanced government regulatory oversight.