

POLICY NOTE

Key Findings

1. Privatized wholesale distribution and retail sales of liquor in Washington state have reduced state government costs and provided increased government revenue.
2. The reform set strict limits on outlets that sell liquor, and those that do must meet requirements set by the state liquor control board.
3. Licensing fees are set at 10% of the gross volume of licensee sales for the first 27 months of licensure, 5% afterwards.
4. Data shows total alcohol-related accidents have declined even as access has increased.
5. Government resources were freed to concentrate on public health and safety laws.
6. The new state law maintains current distribution of liquor taxes to local governments and directs a portion of new revenues to public safety programs.
7. New taxes have propelled Washington to have the nation's highest taxes on liquor.
8. Lowering the tax rate would help consumers and businesses in WA.

Privatization that worked – getting Washington state government out of the liquor business

By Donald Kimball, Operations Assistant

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Introduction

Washington has had a history of caution when it comes to regulating the sale of alcohol. In 1914, voters passed Initiative 3, making Washington the 33rd state to pass prohibition of alcohol manufacture and sale, well before passage of the federal 18th amendment to the Constitution which enacted prohibition nationwide.

With the repeal of the 18th amendment in 1933, Washington voters also overturned their state liquor ban, except for the sale of alcohol to minors. Since liquor sales could no longer be banned outright, Washington state created a system by which liquor sales were controlled by the state, creating the State Liquor Control Board in 1934.

All hard liquors were regulated through the state which established the liquor monopoly, using a system of 328 state-owned and contracted liquor stores¹. Beer and wine could still be purchased widely, but the private sale of hard liquor became illegal.

Voters rejected four previous initiatives to end the state ban and allow private liquor stores: one in 1960, one in 1972, and two in 2010. Finally, in 2011 voters approved Initiative 1183, which dissolved the state monopoly over liquor sales, allowed private sales, and imposed a heavy state tax on all sales of liquor.

Predictions made by privatization opponents didn't happen

Opponents of privatizing the state liquor store system made several dire predictions about what would happen if Initiative 1183 passed. Here are a few typical examples:

The Olympian newspaper: "I-1183 creates problems by increasing liquor outlets, increasing consumption with the potential to increase teen drinking, and alcohol-related collisions and violence."²

The News Tribune: "The downsides are self-evident: Drunken driving, alcoholism, domestic violence, cirrhosis of the liver and other diseases,

1 "Washington state liquor sales headed for privatization," by Elaine Porterfield, *Reuters*, November 8, 2011, at <https://www.reuters.com/article/us-election-liquor-washington/washington-state-liquor-sales-headed-for-privatization-idUSTRE7A81LN201111109>.

2 "Liquor initiative creates far more problems than it solves," Editorial, *The Olympian*, September 25, 2011, at <http://www.theolympian.com/2011/09/25/1813846/2011-election.html>.

higher health care costs and on and on...Washington state does seem stuck in a post-Prohibition, New Deal regime of liquor regulation. Having reconsidered the alternatives, we're just fine with that."³

No on I-1183 campaign: "This initiative will authorize – almost overnight – five times as many retailers. That means a nearly 50% increase in consumption, and an even larger increase in problem drinking, according to a Centers for Disease Control analysis."⁴

These forecasts of increased social harm were wrong. Experience since privatization in 2012 shows that harmful alcohol consumption and alcohol-related collisions and violence have not increased, as opponents had predicted.

Statewide data shows that the rate of accidents, serious injuries and fatalities declined, even as the state's population and number of miles driven increased.

Access and convenience have gone up while drinking related crashes and accidents have not.⁵

2011 Stats	Fatal Crashes	Serious Injury Crashes	Total Fatalities	Total Serious Injuries
Total	421	1,825	454	2,136
Impaired Driver-Involved	195	373	215	479
Drinking Driver-Involved	164	395	180	510
Alcohol Impaired Driver-Involved	121	**	135	**

2017 Stats	Fatal Crashes	Serious Injury Crashes	Total Fatalities	Total Serious Injuries
Total	536	1,916	565	2,221
Impaired Driver-Involved	247	303	266	400
Drinking Driver-Involved	170	365	181	459
Alcohol Impaired Driver-Involved	127	**	135	**

Despite claims from opponents of the initiative, the increase in access has not shown an increase in alcohol abuse. From 2007 to 2017 substance abuse treatment clients increased by 19% (actual numbers 1,135,425 to 1,356,015) (alongside 10% population growth in the time), **with clients being treated for both drug and alcohol abuse dropped from 45% to 37%** (actual numbers 509,919 to 509,948), and

3 "We're Better Off Without I-1183's Liquor Privatization," Editorial, *The News Tribune*, October 22, 2011 at <https://web.archive.org/web/20111115172053/http://blog.thenewstribune.com/opinion/2011/10/22/were-better-off-without-i-1183s-liquor-privatization/>.

4 "No on I-1183," webpage, October 7, 2011 at <https://web.archive.org/web/20120403173848/http://protectourcommunities.com/index.php>.

5 "Fatal and Serious Injury Data," Quarterly report data, Washington Traffic Safety Commission, October 2018 at <http://wtsc.wa.gov/wp-content/uploads/2018/08/Washington2008-2018.xls>.

the percentage of all **clients in treatment for alcohol abuse alone decreased from 19% to 16%** (actual numbers 211,094 to 211,460).⁶

The No on 1183 campaign predicted a broad range of price markups in the private sector—on the low end, we see a 47% retail markup, and on the high end, 72%. The current state markup is 52%, only three points higher than the lowest estimate for private retailers.

Average liquor price increased to \$24.08 one year after from \$21.59⁷ and is currently \$26.17.⁸ Initial markup makes sense due to the increased tax (reduced by 5% after the first two years). With inflation factored in, the average price increased by about \$1.50, not including expanded varieties of liquor sold.

The Daily Evergreen, who opposed privatization, said, “We are doubtful of the argument that I-1183 will continue to provide revenue sources for state and local governments. This is an experimental initiative at a time when the economy is not suitable for experimentation. We are also skeptical of the argument that I-1183 will allow customers to pay less for hard-liquor. In the short-term, yes, but we fully expect companies to raise their prices in the future – just as they do with all their other products.”⁹

Opponents were wrong; state and local revenue did not decline after privatization. Private sales have generated \$269,642,000 in taxes for the state and local governments, steadily increasing since initially collected in the 2012 fiscal year.¹⁰

With the decrease in alcohol-related accidents, much of the increased revenue for health services from the higher tax burden on liquor may be unnecessary. As it currently stands, Washington has the highest tax rate on liquor in the U.S. by far, the excise rate being \$32.52 per gallon – the second highest rate is from Oregon, which only charges \$21.98.¹¹ Lowering the tax rate on liquor would help alleviate the economic burden on consumers drastically, most likely decreasing the purchase cost of spirits to lower levels than under public management of liquor stores. Additionally, this would help keep Washington liquor businesses competitive with other states, since the high prices for Washington liquor stem from the massive tax burden, not the low retail price. Minimizing the tax rate would be a good move to help liquor privatization realize its full potential.

6 “National Survey of Substance Abuse Treatment Services (N-SSATS): 2017, Data on Substance Abuse Treatment Facilities,” Annual Report, Substance Abuse and Mental Health Services Administration, 2018 at <https://www.samhsa.gov/data/report/national-survey-substance-abuse-treatment-services-n-ssats-2017-data-substance-abuse>.

7 “Privatizing liquor hasn’t brought price down,” by Bill Sheets, *Heraldnet*, December 30, 2012 at <https://www.heraldnet.com/news/privatizing-liquor-hasnt-brought-price-down/>.

8 “Spirits Sales Activity as Reported to the State, Sales to Consumers Through Spirits Retailers,” Department of Revenue Washington State at <https://dor.wa.gov/sites/default/files/legacy/Docs/Reports/SpiritsTax.xlsx>.

9 “Vote Against I-1183, vote against corporations,” Editorial, *The Daily Evergreen*, November 2, 2011 at <http://dailyevergreen.com/read/opinion-Vote-against-I-1183-vote-against-corporations>

10 “Spirits Sales Activity as Reported to the State, Sales to Consumers Through Spirits Retailers,” Department of Revenue Washington State at <https://dor.wa.gov/sites/default/files/legacy/Docs/Reports/SpiritsTax.xlsx>

11 “How High Are Spirits Taxes in Your State?” Tax Foundation, June 19, 2019 at <https://taxfoundation.org/state-distilled-spirits-taxes-2019/>.



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Conclusion

Now that eight years have passed and Washington's new liquor tax and regulation system is in place, the voter-approved policy of closing state liquor stores and privatizing sales is clearly a success. The broad social ills predicted by privatization opponents have not occurred.

The relatively low increase in average cost is paired with the increased taxes which have gone toward increased funding for state and local services. Availability and consumer choice have drastically expanded, and while consumption has also been on the rise, alcohol-related accidents have decreased proportionally.¹²

While a reduction in taxes would help allow private actors to lower costs to consumers, even with the higher tax rate Initiative 1183 has accomplished what the voters intended: get the government out of the liquor business and expand choice and availability for consumers without sacrificing safety for the general public.

¹² This paper does not address the social effects of marijuana legalization, which operates under a separate substance-control system.