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CANADIAN CENTRE FOR POLICY ALTERNATIVES – MANITOBA

there is an alternative.

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A Sober Second Look at Liquor Privatization

A story in the Winnipeg Free Press's The View from the West (12/10/2012 – Private Ontario liquor stores will benefit consumers) brings the issue of privatizing liquor sales to readers' attention. Ontario's Progressive Conservatives plan on privatizing retail liquor sales in Ontario should they take power, and the author is all in favour. He points to the "empirical evidence collected over 20 years in Alberta" and the contention that publically controlling liquor sales is "contrary to economic freedom." The more recent piece by the Fraser Institute (December 15, 2012) supposedly dispels the "myths" that critics (such as MADD) raise about privitization. But readers should take a sober second look at this issue. A recent report issued by CCPA's Saskatechewan office does just that.

Campanella and Flanagan's report, Impaired Judgement: the Economic and Social Consequences of Liquor Privatization in Western Canada reminds us that liquor is not a normal commodity. With the WHO describing alcohol "as a major global contributing factor to death, disease and injury", there are tangible public-policy reasons to control its sale. The authors explain that history has shown prohibition to be ineffective in reducing the consumption of alcohol and its attendant damage while allowing organized crime to capture the revenue that otherwise would have flowed to public purses. The report provides more compelling evidence that a free-market approach is also unable to deal with the externalities (health and social damage) that stem from alcohol abuse and that privatization actually reduces government revenues. Government control, on the other hand, has proven the most effective way of moderating consumption while capturing revenue to mediate the damage caused.

This particular report compares the varying models used in Canada's three most westerly provinces. BC has a mix of public and private stores; Alberta's market is 100% private, with the government controlling it at arm's length; and Saskatchewan's is mostly publically run, with the exception of some privately-owned wine stores (like Manitoba). The three provinces with their different models provided the authors with real-life laboratories, each with its own measurable outcomes regarding price, impact on provincial revenues, levels of consumption, alcohol abuse by youth and health outcomes. Adding to the ease of the analysis is the fact that Alberta had a wholly public system until 1993 when it privatized all its liquor stores, allowing us to compare before and after privatization metrics as well as Alberta/BC/Saskatchewan data. BC privatized only some of its stores, allowing us to compare the two approaches within the same province.

Whether we look at inter-provincial data or data from within BC and Alberta, the results are the same regarding price, consumption rates and impact

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on revenues, with Alberta doing the worst of the three provinces, BC second worst (except for price: BC's private stores have the highest prices) and Saskatchewan performing best. The report shows how ironically, prices actually increased in Alberta after privatization and in BC, prices in the private stores are higher than in the public ones. So privatization hasn't delivered lower prices as promised by free-market advocates. This result occurred in spite of the proliferation of liquor outlets in Alberta since privatization which should have increased competition and lowered prices.

If the goal is to reduce alcohol consumption, aren't these higher prices a good thing? Higher prices mean lower demand… right? Well, it depends on how "elastic" the product it – meaning how responsive its demand is to price increases. It turns out that alcohol is "price inelastic" – an awkward way of saying that demand for it is not that affected by increases in price. In fact, Albertans' demand for alcohol has grown in spite of the price increases. Still, doesn't the increase in sales at higher prices mean more government revenue? It depends.

Revenues from liquor sales are collected partly through an excise tax which can be levied in two ways; through a charge per unit sold or through a value-added tax (by adding a percentage to the price). The Saskatchewan Liquor and Gaming Commission (SLGC) and Manitoba Liquor Control Commission (MLCC) use a value-added tax, as does BC. Alberta, where retailers set their own prices, the value-added tax is not practical, so it moved to a unit sold tax – based on volume. Not only is the unit tax less fair (it's like a flat tax), but it results in lower tax revenue.

An effective tax is one that collects high revenue relative to the amount of alcohol sold. Pre-privatization, Alberta had the most effective means of taxing liquor of the three provinces. But its effectiveness has been steadily declining since 1993 and is now the lowest of the three provinces. BC has the most efficient tax regime, although it did decline soon after partial privatization.

The report demonstrates that higher prices have not delivered higher revenues in Alberta; in fact the province lost an estimated $1.5 billion in tax revenue since privatization.

So far we have just looked at revenues. We also have to see how much government expenses have changed. We learn that the societal costs related to alcohol consumption in Alberta have increased since privatization. In fact, overall in Canada, liquor taxes are too low when one compares alcohol-related externalities (estimated in 2002 between $7.5 and $14.6 billion) with national revenues from alcohol sales ($3.9 billion). The report refers to statistical analyses showing a significant association between liquor privatization in Alberta and suicide rates. In BC the Provincial Health Officer conservatively estimated that the province lost $62 million in revenues in 2002 when societal costs were factored in.

How is it that a government monopoly can moderate societal costs while increasing revenue? Without a profit motive, a public enterprise can regulate liquor's availability both economically and physically. It can implement an efficient tax regime while locating stores more strategically. It can also limit hours and regulate age restrictions more efficiently. Sales to minors have increased dramatically in Alberta since privatization and private vendors have proven very effective at lobbying for an arm's length attitude towards liquor regulation enforcement.

It remains to be seen if we will see greater pressure for privatization in Manitoba. This latest CCPA Sask. report – which uses a full-cost accounting method - adds to the strong evidence-based argument in favour of public control.

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