DRINKS ON US:

Defending the Pennsylvania Liquor Control Board

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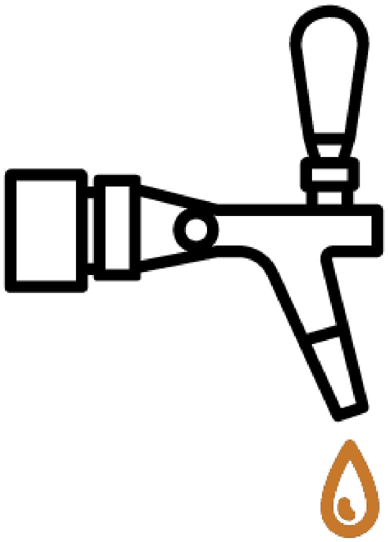
According to *Yuengling: the History of America's Oldest Brewery*, the Pennsylvania Liquor Control Board (PLCB) was designed to, in the words of then-Governor Gifford Pinchot, make liquor sales "as inconvenient and expensive as possible."[1] The PLCB is the state agency with sole control over the distribution and sale of alcohol in Pennsylvania. State House Republicans agree with Gov. Pinchot and have been arguing that it is time to privatize the PLCB. They charge that the agency is "archaic" and losing money.[2] Supporters of the PLCB argue that privatization would result in higher prices for consumers and the loss of well-paying Pennsylvania jobs.[3] While the PLCB does have some inherent features making it harder to buy alcohol, the best option for the citizens of Pennsylvania is a modernized PLCB.

Created in the wake of the 21st amendment which ended prohibition, the PLCB oversees the distribution and sales of all alcohol in Pennsylvania. For an alcohol manufacturer to sell its product in Pennsylvania, it must send an application to the PLCB. All vendors must first register with the federal government then the state. After that, the PLCB only considers new applications twice a year for new products. Products are scored on their quality and their potential marketing value by the PLCB.[4] Approved products are then sold to consumers by PLCB operated stores, colloquially known as state stores, and beer distributers where citizens can purchase alcohol.[5] Restaurants and some private outlets may sell limited quantities of alcohol, but they must first purchase the alcohol from the PLCB.

For consumers, this means that all alcohol bought in Pennsylvania at some point passed through the hands of PLCB workers. If you are dinning out or drinking at a bar, that restaurant must have purchased the alcohol it is serving from the PLCB. The same goes for the limited quantities of beer that some retailers are allowed to sell. However, all other alcohol including wine and other spirits must be bought from PLCB operated stores. These stores (with a few exceptions) have the same variety of alcoholic beverages throughout the state. Furthermore, all wine and spirits have the same price across the state unless a county enacted its own tax on alcohol which is then added on to price of the product.

The PLCB has operated in this fashion for decades. Today, on both sides of the aisle, there are calls for change. However, there are large differences in the extent to which the PLCB needs changing. Leaders of the Pennsylvania Republican party seem to agree with Gov. Pinchot and argue that it is time for the state to withdraw from the alcohol business. They argue that privatization will result in more convenience for Pennsylvania consumers as well as more variety. They passed House Bill 466, which was subsequently vetoed by Gov. Tom Wolf, which would begin the transition to a privatized system.[6] The bill would allow retailers to sell more beer and wine to go. Also, the state would lease and then sell its wholesale operation. During this time, current state stores would close as new retailers opened up other stores.[7] On the surface, this bill does seem like it would have been a boon to Pennsylvania consumers. However, upon further inspection, it turns out privatizing the PLCB would cause more harm than good.

First, the PLCB continues to be profitable for PA citizens. According to the PLCB's 2013-2014 annual report, the agency returned $80 million to the taxpayers on top of more than $400 million in tax revenues. Furthermore, the agency's net profit has doubled since the 2009-2010 fiscal year going from $50 million to $123 million.[8] These numbers are consistent with findings from the latest audit of the PLCB from 2012 conducted by the Auditor General.[9] Also, the PLCB transfers millions of dollars to the state police every year and sends



money to the department of drug and alcohol for educational programs concerning alcohol abuse in the commonwealth.[10]

However, supporters of privatization argue that if the system is privatized, it will generate more funds for the state.[11] They also believe that privatization will address a phenomenon known as "border bleed"—which is a scenario when people who live near the border of Pennsylvania leave the state to buy alcohol.[12] However, a report published by Swarthmore researchers disagrees. In their report, John P. Caskey and Philip N. Jefferson argue that Pennsylvania's losses due to border bleed is most likely between 3-8 percent of sales and "certainly under 10 percent."[13] Finally, they argue that whatever effect border bleed has is most likely due to Pennsylvania's taxes, not its state controlled status.[14]

In terms of seeing if privatization leads to more revenue, Washington state, which recently privatized its liquor system, provides a good example. In the first full year of privatization, Washington state collected $521 million which was an increase of $73 million from when the system was state controlled. However, that figure includes a onetime windfall of $105 million paid by distributors to enter into the private market.[15] Therefore, the state of Washington collected less money from alcohol sales once the stores became privatized. Furthermore, the state was not the only one whose wallet took a hit.

In an attempt to ensure that the post-privatization situation would yield the same amount of revenue as the previous system, Washington legislators increased taxes on alcohol.[16] So, despite an increase in competition among alcohol distributors, the average price of alcohol in Washington actually went up after privatization from an average price of $22.48 per liter to $24.20.[17] This price increase was larger than any year to year price change for the past 5 years of Washington's state controlled system.[18] Therefore, citizens in Washington are paying more for alcohol than they did before and the state itself is collecting less money after privatization. This is despite people in Washington buying 6 million more liters of alcohol than before, which was a 13.64% increase.[19] This would suggest then, that Washington's state controlled liquor system was more efficient, at least from a fiscal standpoint, than its current privatized system. In the post-privatized system, people bought significantly more alcohol than they had previously however, this increase was insufficient to make up the loss incurred by the state from privatization.

Furthermore, Tom Greenfield of the Alcohol Research Group believes that Pennsylvanians too would have to pay higher prices for alcohol in order for the state to continue to bring in the same amount of revenue from alcohol as it currently does.[20] This is because once the system becomes privatized, it would only collect revenue from taxes on alcohol whereas currently the state receives revenue from both taxes and the price markups on alcohol. If the system is privatized, a private company would be profiting on the markups on alcohol, not the state.

Therefore, it is highly unlikely that Pennsylvania could have a privatized liquor system, lower prices, and still bring in the same amount of revenue. So, if Pennsylvania privatized its system, it would have two options. One, it could aim to keep prices steady or make them lower for consumers by maintaining current alcohol tax levels or by lowering them. However, this would increase Pennsylvania's structural deficit (which is the deficit resulting from steady government policy.) Our state structural deficit already sits at 1.5 billion dollars.[21] This would be due to the state collecting less money from alcohol sales than it is currently predicted to do. Option two would be, ensuring that

privatization is revenue neutral, requiring a tax hike. However, as previously stated, this would mean Pennsylvanians would have to pay more for their alcohol than they are currently. Thus, a privatized system cannot lower prices on alcohol and remain revenue neutral for the state at the same time. State Republicans have been for a revenue neural plan however, they also declare that they will not raise taxes on alcohol.[22] If Washington State is any example, this would mean that Pennsylvania would see its structural deficit increase.

Meanwhile, the PLCB has the support of a national task force whose members are appointed by the Center for Disease Control. This task force recommended against the privatization of alcohol distribution. Doing so, they found, increases the general level of the consumption of alcohol. While, some this increase is simply because there is more variety, the task force maintains that most increase is driven by even more consumption by the heaviest drinkers. Also, the task force reported that areas undergoing privatization saw an increase in violence and vandalism while reporting that these area enforced alcohol laws (such as the minimal drinking age) less strictly than non-privatized areas.[23] Thus, keeping the PLCB would help keep alcohol in the hands of responsible customers. This is important as alcohol is a drug and the state has a compelling interest in making sure that it is consumed responsibly.

This does, however, reveal a dilemma that the PLCB faces. Jacob Sullum points this out in an article for Forbes Magazine. The PLCB is tasked with making the sale of alcohol easier, by increasing variety and convenience for customers, while also trying to make it harder, by regulating the of alcohol to make sure that it is only consumed responsibly.[24] However, what he misses is that this is true for all states. The only difference is that in most states, private companies share this dilemma with the government. They want to try to increase sales as much as possible to increase profit, but at the same time they are bound by law to ensure that all sales go to responsible individuals. Thus, this dilemma is not the fault of a state-owned system but instead, it is a result of the struggle between individual rights and public safety.

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How does a state strike the right balance between making alcohol available while at the same time regulating its consumption? Roland Zullo et al (2013) and David Campanella and Greg Flanagan (2012) argue that the best system is a state owned monopoly as both found that state-owned monopolies brought in more revenue than private systems. This is despite the fact that in private systems, more alcohol is sold.[25] [26] Furthermore, Zullo et al (2013) found that liquor control states have lower crime rates dealing with assaults, fraud, domestic abuse, and vandalism than private liquor systems.[27] Thus, a state controlled liquor system maximizes economic benefit while at the same time minimizing social harms.

Therefore, emphasis should be placed on making alcohol sales as convenient as possible while at the same time ensuring that the state does not lose money and is able to keep people safe. That is why the best option in respect to the PLCB is to modernize the existing system rather than replace it. In 2012, state Democrats introduced SB 1287 which would have begun this process. However, the state Republicans who controlled the senate never brought the bill up for a vote. This bill would have increased the amount of time state stores could be opened on Sundays and would have allowed the PLCB to pursue flexible market pricing.[28] Previously, the PLCB was forced by law to charge a standard markup on all of its products. This bill would have allowed the PLCB to change the markups it charges depending on demand. Longer hours would make it easier to purchase alcohol while flexible market pricing would allow the PLCB to offer more competitive prices when compared to alcohol sold out-of-state. Both would clearly increase convenience while at the same time keeping state control.

In 2015, State Democrats introduced SB 15—again never voted on—which included the provisions from SB 1287 plus a few others. One of these reforms is to allow the PLCB to partner with other states when purchasing alcohol from distributors to try to get the best possible prices for alcohol. The bill also includes different proposals to make buying alcohol more convenient such as allowing beer distributors to sell smaller packages of beer and to allow wine to be shipped directly to consumers' homes. Finally, this bill along with all other modernization efforts will protect the more than 4,000 plus jobs held by PLCB employees.[29] In Washington State, total alcohol employment did increase after privatization. However, a state report declared that some of the jobs may have been gained due to the end of the great recession. The report said it cannot be known how much of the job growth was due to privatization.[30]

However, there has been some movement with modernizing the PLCB. In June of 2016, Governor Wolf signed HB 1690 into to law. This legislation dramatically overhauled several aspects of the PLCB. For example, the state no longer has to charge the same mark-up on its products for the entire year.[31] Thus, in the weeks before News Years day, the PLCB can hike the cost of champagne, then decrease after the season has passed to better reflect market conditions. HR1690 also increases the hours state stores can operate increasing convenience for consumers.[32] Perhaps the biggest change is loosening who can sell alcohol. Now, restaurants and hotels that already have licenses to sell alcohol can sell up to four bottles of wine to consumers to go. Also, gas stations and certain groceries will also be allowed to sell limited amount of alcohol such as six packs directly to consumers.

Admittedly, these changes do not yield the same level of convenience as a privatized system would. However, as previously stated, a privatized system would either mean more expensive alcohol for Pennsylvanians or less revenue for the state. Also, the Community Preventative Task Force has argued that state controlled liquor stores are more effective at keeping alcohol in the hands of responsible adults than private stores. Furthermore, HB 1690 shows the PLCB can take measures to make the sale of alcohol more convenient for Pennsylvania consumers while at the same time keeping the public safe. Modernization, not privatization, is the best choice for reforming the Pennsylvania Liquor Control Board.

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