

Going Out Of Business

Some states might see real value in selling off their liquor stores.

By Josh Smith

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History might pair this year's conservative backlash with an unlikely partner – the most significant push to liberalize government alcohol controls since the end of Prohibition.

Eighteen states still control parts of the liquor trade, and that number hasn't changed in the almost 80 years since the federal ban was lifted. But an increasing number of states are looking to change that.

In what could be an indication of a fiscal, rather than social, emphasis in the current conservative wave, lawmakers in at least five of those 18 "control" states proposed legislation in 2010 related to privatizing alcohol sales.

While most of those measures failed, voters in Washington state will be voting on two ballot propositions that would remove the government from the process.

In Virginia, Republican Gov. Bob McDonnell's plan to sell off state liquor stores just got another thumbs up from a government commission.

And in Pennsylvania, GOP gubernatorial nominee Tom Corbett announced he supports privatizing his state's liquor sales. Corbett leads in most independent polls.

All this adds up to the most active year for alcohol deregulation in decades, said Steve Schmidt, vice president of public policy for the National Alcohol Beverage Control Association.

Industry analysts say this activity has been prompted by a perfect storm of state budget distress and ideological opposition to government control, two of the major factors driving this year's political movement.

When the economy tanks, state lawmakers often start to look at ways to fill their coffers by selling off state-controlled liquor operations, Schmidt said.

Virginia's McDonnell claims that privatizing the state's "ABC stores," or outlets run by the state Alcoholic Beverage Control Department, could provide \$500 million for transportation.

"This is an opportunity to put half-a-billion dollars into transportation simply by eliminating an outdated government monopoly,"

he said. In arguing for the change, however, McDonnell has also tapped this year's theme du jour. "By privatizing ABC," he said, "Virginia will join the majority of states in the nation that have long recognized alcohol distribution is not a core function of government."

While opponents dispute the potential revenue of such sales, 2010 has largely been marked by a more libertarian-flavored conservatism that has flourished amid voter dissatisfaction.

"Alcohol control is a typical socialist model," said Tad DeHaven, a budget analyst for the libertarian Cato Institute. "That this issue is gaining traction is a reflection of the national mood."

Politicians are realizing that they don't have to worry as much about "moralists," DeHaven contends, because America as a whole has become more socially liberal.

"State control of alcohol stores doesn't make any more sense than state control of grocery stores or gas stations," he said. "With this year's dissatisfaction with government, the timing is just right to address this issue."

But there's a reason state alcohol controls have lasted as long as they have. Deregulation is strongly opposed by a range of interests, including temperance groups and a significant sector of the alcohol industry.

The California-based Marin Institute, a self-described alcohol industry watchdog group, argues that privatization will cost states money in the long run and cause social harm.

"Privatization of state-run alcohol sales is a shortsighted proposal that comes at the expense of the state's finances and the public health," according to a statement released by the group. "Any immediate economic benefits realized from privatization will be offset by increased consumption, reduced state revenues over time, and increased costs due to more harm."

It may be impossible to fully anticipate what negative or positive effects full privatization might have, Schmidt said, because such moves would be the first in years.

Beyond the social concerns, alcohol wholesaler groups consider deregulation efforts a threat to their business.

Many current laws create a "three-tier system," with wholesalers playing middleman between suppliers and retailers. Wholesalers believe changes could reduce the need for a middleman and cut them out of the system.

Wholesaler groups have pumped millions of dollars into the effort to defeat Washington state's Initiative 1100, which is backed by the retail giant Costco.

A competing Initiative 1105 would privatize the state liquor operations but maintain protections for wholesalers.

It is unclear at this point, however, whether either ballot initiative will have the support needed to pass.

Despite the defeat of earlier legislative measures and the weak support for Washington's proposals, Schmidt said this year's efforts represent the most serious push in at least 40 or 50 years.

"In the past, you might see one or two states toy with privatization," he said. "But if either proposition passes in Washington or Virginia implements its plan, it would be the most significant change since Prohibition."