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Policy experts: Politicians hold on to control of liquor industry for profit, power

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ALEXANDRIA, Va. — The bloody arrest of University of Virginia junior Martese Johnson by alcohol enforcement agents has some asking the age-old question: Why does the state control the liquor industry at all?
Through the years, Republican and Democratic governors such as Bob McDonnell, Tim Kaine, Doug Wilder and Mark Warner have either explored or pushed the idea of privatizing Virginia's Department of Alcoholic Beverage Control, but no attempt has succeeded.
Virginia remains just one of 17 states that controls the sale of spirits.

Why? Money and power.

"I think a lot of politicians just love the idea of a government agency that can turn a profit," said Tim Carney, a visiting fellow with the free-market American Enterprise Institute who oversees its Culture of Competition Project.

"That's one big thing. They don't like giving up the profits, is one part of it. So, obviously, these guys make a lot of revenue. Other government agencies just spend money, and these guys pull some in.

"Another part of it is, I think politicians as a class tend to keep control over anything they have control over," Carney said. "They start imagining all the horrible things that can happen if the private sector steps in."

The state agency, which started operating in 1934 after prohibition, doesn't shy away from its role as a controller and enforcer in the commonwealth. Its mission statement is to "control the distribution of alcoholic beverages; operate efficient, conveniently located retail outlets; enforce the laws of the commonwealth pertaining to alcoholic beverages and youth access to tobacco products; and provide excellent customer service, a reliable source of revenue and effective public safety."

It is a pretty reliable source of revenue — people's appetite for alcohol doesn't decline through the years — although perhaps not as much as some might expect. ABC's gross sales were just more than $800 million in fiscal 2013, with a net profit of $140 million. About $1 million of

that came from civil penalties, rather than sales. Over the past five years ABC sales have boosted the state's general fund by a total of $1.8 billion.
On top of the state's control of liquor, Virginia has the third-highest excise taxes for spirits in the country. At $19.19 a gallon, those taxes are hidden because the liquor producers pay for them. So, higher prices get passed along to consumers, but largely without them seeing it.
When the question of privatization arises, one of the most-cited arguments against it involves closing that funding gap.

Even if lawmakers are right that it would be hard to replace the cash flow — and some would say there's plenty to cut in the $95 billion biennial budget — that cash collection is nothing to be proud of, one expert says.

"That's not a good thing, that's a bad thing," said Chris Edwards, director of tax policy studies for the libertarian Cato Institute.

Government shouldn't be in the business of generating revenue, he said.

"There is a common sort of theme here, that things that the government tells us are vices, they are profiteers on — cigarettes and lotteries and alcohol," Edwards said.

When it comes to taxes and control of a particular industry, Edwards said, the government shouldn't penalize or show favoritism.

"Consumers should be sovereign, not the government," Edwards said.

Dollars and cents aside, Carney said the principle of free markets shouldn't be sacrificed for a little extra cash.

"It's typical for Republicans to extol free markets but then want the government to take the place of business when it comes to things like alcohol," Carney said.

Liquor control, he added, is one of those rare bipartisan issues.

"State control of liquor is a perfect bipartisan issue because it involves government control of business and moral policing at the same problem," Carney said.

Once government has control over an industry, that's hard to give up.

Edwards even suggested the legal drinking age is too high, because, after all, 18 is the legal age to fight foreign wars and get all other adult rights.

The incident involving Johnson in Charlottesville might never have happened if he was legally old enough to drink. States increased legal drinking ages to 21 when Congress tied 10 percent of highway funds to whether states complied with the higher age limit.

Carney said consumers win when businesses, rather than government, run an industry.

"Primarily, consumers would benefit from more choice," Carney said. "They would benefit from price competition. Right now, there is a monopoly, so there is no competition in terms of price or

variety or quality. And taxpayers are currently paying for the overhead for holding on to the land, for the staff, all of that, when that could be being paid for by the private business."