

The Fiasco of Prohibition

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The national prohibition of alcohol, initiated by the Eighteenth Amendment to the Constitution and enforced via the Volstead Act, stands as an important illustration of the limits to social engineering. Prohibition failed to eliminate alcohol, and even exacerbated many of the social ills related to its consumption, because government is limited both by its knowledge of how people react to regulation and also by the incentives faced by the regulators themselves.

In *Last Call: The Rise and Fall of Prohibition*, a brilliant and exhaustively researched book, David Okrent examines the forces behind the enactment and repeal of Prohibition as well as its consequences, both intended and unintended. From 1920 until 1933 most Americans were forced to choose between abstinence and illegal consumption. But Americans loved to drink: Per capita alcohol consumption in the nineteenth century was three times today's rate. It's no surprise that so many chose to continue their consumption illegally.

If the goal of Prohibition was to eliminate, or even reduce, many of the problems associated with alcohol consumption—such as criminal activity, binge drinking, drunk driving, and deaths and injuries via alcohol poisoning—it was an unambiguous failure. As Okrent illustrates, after 13 years of speakeasies, corrupt enforcement, and criminal empires, the repeal movement had little difficulty in convincing a beleaguered public that Prohibition was a mistake.

However, this is not to say that Prohibition was entirely ineffective. If the goal was to reduce overall consumption of alcohol by increasing its price, Prohibition worked largely as intended. Initial consumption declined to 30 percent of its pre-Prohibition level, though this number rose to 70 percent within three years and stayed roughly at that level by the time of repeal. However, even for its advocates this is an odd measure of success for prohibition. Also worth noting is that repeal did not bring about a significant increase in drinking. Per capita consumption rates did not reach their pre-Prohibition levels until 1973.

Enforcer Colonel Ira L. Reeves bitterly stated at the end of his term that the only thing he had accomplished was that he “had raised the price of alcoholic beverages and reduced the quality.” This was a declaration of frustration and defeat, an admission he had been unable to remove alcohol from the American way of life. In line with this assessment, one of the main lessons Okrent derives from Prohibition is that government cannot effectively legislate against people's tastes.

Okrent primarily focuses on the battle between the “wet” and “dry” political movements dating from the mid-nineteenth century until the 21st Amendment and the repeal of Prohibition in 1933. Both sides had their share of notable and influential characters,

perhaps none more so than the dry Wayne Wheeler, leader of the Anti-Saloon League (ASL). In the history of American politics, no interest group has been as influential as the ASL and few individuals have had as much direct impact on public policy as Wheeler. H. L. Mencken, a dedicated wet, wrote of Wheeler: "In fifty years, the United States has seen no more adept political manipulator."

Wheeler and the ASL, supported primarily by rural Protestant voters, had a stranglehold over Congress and most state legislatures during most of Prohibition. Okrent writes that the Wheeler-led ASL "effectively seized control of both the House and the Senate in the 1916 elections" and did not loosen its grip until the early 1930s.

Perhaps the most enlightening, and disturbing, revelation in the book is how the ASL became the most powerful pressure group the nation had ever known and how the dry movement was able to enforce its will on a population that loved to drink. Most people are familiar with Prohibition-era stories involving corrupt police and politicians taking bribes from bootleggers like Al Capone. What most people are unaware of, however, is just how openly most members of Congress manipulated the political process to push Prohibition on a largely unwilling public.

A primary reason Prohibition happened was that the dry rural voters in favor of it were vastly overrepresented in state legislatures and in Congress. To get an idea of just how overwhelming this discrepancy was, consider that by 1929 a staunchly wet congressional district in Detroit had a population of 1.3 million, while ten separate dry districts in the Missouri had fewer than 180,000 people total. This disparity was the work of dry legislators, who blocked reapportionment and thus denied accurate representation to wet districts that were experiencing unprecedented immigration. Okrent summarizes the significance of the situation aptly: "Never in American history, not even during the tumult of Civil War, had Congress disregarded the constitutional mandate, enunciated in Article 1, Section 2, to reapportion itself following completion of the decennial census. . . . Between 1921 and 1928, forty-two separate reapportionment bills were introduced in the House. Not one became law."

Although political manipulation was vital to the dry movement, Prohibition would not have passed if not for the support of one of the broadest coalitions in American history. The diverse movement behind the Eighteenth Amendment and the Volstead Act included such groups as the Ku Klux Klan, the American Medical Association, the women's suffrage movement, and the Industrial Workers of the World, to name a few. Although these groups were diametrically opposed on most issues, each saw potential advantages from Prohibition.

Baptists and Bootleggers and Doctors and Coke

Prohibition provides a clear illustration of one of the basic lessons of Public Choice economics: Interest groups use the political process to concentrate benefits on themselves while dispersing costs on others. The AMA, for example, foresaw the potential for a lucrative business providing prescriptions for alcohol under the Volstead Act for roughly

\$3 (or about \$33 in 2010 dollars). Although in 1917 the AMA ruled that the use of alcohol in therapeutics “has no scientific value,” after two years of Prohibition the organization declared alcoholic beverages to be useful in the treatment of 27 separate conditions including diabetes, asthma, and old age. The AMA’s sudden change in medical advocacy was in line with its self-interest.

The AMA was not alone in this regard. Asa Chandler, the founder of the Coca-Cola Company, was an ardent supporter of Prohibition because he saw the potential to eliminate the competition provided by brewers and distillers. Chandler was rewarded for his vision: Coca-Cola saw sales triple. Charles Walgreen expanded his drug store chain from 20 to 525 stores during the 1920s. Although family historians have credited this expansion to the invention of the milkshake, the profitable trade in medicinal alcohol provides a more likely explanation.

Making Matters Worse

As important as it is to understand how Prohibition passed, it is even more important to understand why it made many alcohol-related problems worse. Prohibition failed in this sense because the policymakers behind it failed to predict how consumers, suppliers, and regulators would respond. Many people continued to drink, and a multitude of bootleggers, violent mobsters, and corrupt politicians were willing to provide a continuous supply.

As with most cases of failed social engineering, the people who advocated Prohibition suffered from a conceit that it would work exactly as intended. The economist Irving Fisher, known for his groundbreaking work on interest rates, claimed in 1919 that Prohibition would increase national output 10–20 percent every year. Although alcohol consumption remained high, Fisher continued to attribute the growth of the 1920s to Prohibition.

Per capita alcohol consumption returned to around 70 percent of its pre-Prohibition levels by 1923 because a multitude of entrepreneurs were willing to operate outside of the law to quench the public’s thirst. The infamous Purple Gang controlled the vast alcohol traffic flowing from Canada through Detroit, while New York mobsters like Charles “Lucky” Luciano launched their long criminal careers in the illicit alcohol trade. The notorious Chicago bootlegger and gangster Alphonse Capone said of his profession, “I give the public what the public wants. I never had to send out high pressure salesmen. Why, I could never meet the demand.”

This is not to say that Capone or his contemporaries were unfamiliar with the use of force. Since Prohibition drove the market for alcohol into the illegal sector, men like Capone had to rely on extralegal measures to enforce contracts and resolve disputes. Sometimes these measures included violence. To get an idea of just how much, consider the homicide rate. In the United States it went from less than 12 per hundred thousand people in 1920 to 16 by the end of Prohibition, then subsided to less than 10 by 1940.

Nonviolent Means

Not all bootleggers were violent, however. Men like Samuel Bronfman and William “Bill” McCoy specialized in the importation of alcohol through ports and border towns all over the country. Once these specialists had evaded or bribed Prohibition agents and local politicians to bring their products into the country, they would sell them to gangsters like Luciano who handled the massive distribution to local speakeasies. New York, for example, had roughly 32,000 speakeasies during the height of Prohibition.

Although some Prohibition agents could not be bought, the prevalence of corruption throughout the era was staggering. Okrent illustrates countless examples of rampant opportunism by Prohibition enforcers. Chicago Mayor Bill Thompson, for example, received more than a quarter of a million dollars directly from Capone’s organization for his 1927 campaign. Ranking police captains amassed bank accounts approaching hundreds of thousands of dollars on salaries ranging from \$2,500 to \$4,000 a year.

The bootleggers controlling the black market in alcohol were actually more likely to support dry politicians in favor of Prohibition than wet politicians favoring repeal. The logic behind this strategy is simple: Bootleggers and gangsters needed Prohibition to stay in business. If alcohol were legal they would quickly be replaced by legitimate companies. The ideal combination from the criminal perspective was dry policy and corrupt enforcement, and they spent whatever was necessary to make this happen.

To understand why criminals were willing to spend so much to ensure political cooperation and endure work-related hazards like gang warfare, it is necessary to know just how much was at stake. Annual sales of bootleg liquor were estimated at \$3.6 billion in 1926, which is roughly \$43.4 billion in 2010 dollars. This astounding sum was about the same as the federal budget that year.

Why Not More Violence?

Given the stakes, the real puzzle is why more violence did not occur. Events such as the St. Valentine’s Day Massacre, where Capone’s South Side Gang killed seven rival gangsters, garnered a lot of attention in the national press. The extended periods of peace, stability, and even cooperation that occurred both between and within different criminal enterprises, however, have generally gone unnoticed.

Seattle bootleggers convened in 1922 to set prices and, more important, to establish rules to minimize conflict. Similar meetings occurred in Philadelphia, New York, and other major cities throughout the 1920s. Despite the enormous amount of money at stake, most areas of the country where alcohol remained avoided outright gang warfare.

The fact that economic activity of the same magnitude as the U.S. government could be organized outside of the law is surprising for a number of reasons. Those who choose a life of crime tend to be violent, impatient, and untrustworthy by nature. Despite these

obstacles, criminals often discover ways to cooperate on a large scale to capture illicit profits.

Besides the use of violence, how did a bunch of violent, impatient criminals manage such organizational stability? They employed reputation, costly signaling, and constitutions as means to enforce agreements and resolve disputes. Criminals worked hard to avoid conflict where possible because conflict is costly. Gangsters like Capone and Luciano were driven to cooperate with other criminals by the same economic forces underlying cooperation between their law-abiding counterparts.

It is important to understand the robustness of criminal organization for a number of reasons. For one, it explains to a large extent why Prohibition was doomed to failure. If there is a strong enough demand, legal prohibitions on certain goods and services will simply shift markets into the waiting arms of the illegal sector of the economy.

That criminals could engage in complex economic interactions outside of the law also illustrates some important lessons for the robustness of self-enforcing exchange in general. If criminals are capable of overcoming major obstacles to organization and exchange, then conventional arguments that the State is necessary for cooperation and exchange to occur must be reconsidered. Even in an environment of mistrust and violence, firms were formed, contracts were honored, and disputes were mostly settled peacefully. A better understanding of these processes can shed considerable light on the ability of individuals to cooperate and trade in the absence of a formal legal framework.

This is not to say that criminal organization is the pinnacle of achievement in a market economy. On the contrary, the experience of black markets brought about by Prohibition illustrates how inefficient they are relative to markets with well-defined and legally enforceable property rights. Overall quality diminished, while fraud, theft, and violence increased. Criminal cooperation also periodically broke down into outright gang warfare, though as noted, this was generally the exception to the rule. The important lesson, however, is that under Prohibition, criminal suppliers found a way to meet the public's demand despite all the obstacles they faced.

Although Okrent avoids making any explicit comparison between the prohibition of alcohol and the ongoing prohibition of certain recreational drugs, there are a number of obvious similarities. Criminal organizations continue to provide a seemingly limitless supply of illegal drugs; quality is low, potency is high, and corruption and violence are endemic.

Some 28,000 people have died in the border war between drug cartels and United States and Mexican government agents since 2006. Street gangs continue to battle over territorial distribution rights. As Nobel Prize-winning economist Milton Friedman aptly said, "Al Capone epitomizes our earlier attempts at Prohibition; the Crips and Bloods epitomize this one."

Examples of Legalization

As was the case with the prohibition of alcohol, advocates of the “war on drugs” often claim that decriminalization would result in a massive spike in drug use. Although it is impossible to know in advance exactly how much consumption would increase, the experience of Portugal could provide some clues.

Since the decriminalization of all drugs there in 2001, user rates have not increased and remain near the lowest in Europe. Sexually transmitted diseases and deaths due to drug usage have decreased significantly (see Glenn Greenwald, “Drug Decriminalization in Portugal: Lessons for Creating Fair and Successful Drug Policies,” Cato Institute, April 2, 2009).

Just as Coca-Cola and the AMA lobbied for alcohol prohibition because it was in their economic interest to do so, a number of groups have a vested interest in the war on drugs. One illustrative example is the California Beer and Beverage Distributors, which donated money to oppose last year’s unsuccessful ballot proposition to legalize marijuana in California. History rhymes in interesting but predictable ways. This behavior is consistent with the lessons of Public Choice. The distributors, like Asa Chandler of Coca-Cola 90 years earlier, see prohibition as a means to eliminate competition.

The unfortunate reality is that despite the diagnosis of failure for prohibitions past and present, policy-makers often prescribe a further dose of the same failed policies. In 1926 Wayne Wheeler said the “very fact that the law is difficult to enforce is the clearest proof of the need of its existence.”