IMPAIRED JUDGMENT

The economic impact of liquor privatization may be open to debate, but shouldn't our provincial government be just as concerned with how it affects the health of Albertans?

By GREG FLANAGAN

In the provincial referendum of 1923, following seven years of prohibition, Albertans voted for government control over liquor. They chose a distribution and sales system that promised to control crime and raise money for the province. The Alberta Liquor Control Board was up and running a year later, and part of its mandate was to restrict the availability and abuse of liquor. The ALCB set prices high in order to implicitly "tax" alcoholic beverages. Seven decades later, with operating costs low and profits going into general government revenue, its monopoly remained efficient.

Then, on September 2, 1993, Steve West, at the time Alberta's Minister of Municipal Affairs, unveiled a privatization plan the government trumpeted as a triumph of free enterprise and a bold new business opportunity. "The business community in our province," West said, "has demonstrated that they are fully competent to provide retail liquor services in a responsible manner." West announced that the province was changing the way liquor would be controlled, taxed and sold. The government privatized liquor stores and warehouses, and switched from a proportionate tax—a percentage markup on price—to a unit, or flat, tax.

Within 10 years of West's announcement, the number of liquor stores in Alberta had increased dramatically, from roughly 300 to nearly 1,000. Stores are now open longer hours and many are open every day except Christmas. Selection has improved fivefold—Albertans can buy about 17,000 different products these days, opposed to 3,325 a decade ago. And there has been a tremendous increase in the number of jobs, too, from approximately 1,300 to 4,000. Wages, however, have tumbled from more than $14 per hour (in current dollars), plus a benefit package and civil service pension, to about $7 per hour.

In some ways, this market structure is good for consumers. Buying liquor is more convenient with more stores, longer hours and more accessibility in rural towns. But prices have increased, although not to the degree they might have, because the share taken as government tax revenue has fallen. Moreover, private liquor retailing has increased regulation and enforcement costs. Some of these costs are incurred by the province, while others are shifted to local police departments.

Private liquor retailing has not been so good for those who work in the industry. Competing liquor stores today "differentiate" themselves through location, selection, expertise, decor, hours of operation, advertising, customer loyalty programs and discounts. This differentiation means, economically, that there are an "inefficient" number of outlets. With so many stores, Albertans are experiencing "excess capacity" (in other words, a duplication and redundancy of services), particularly in cities. This inefficiency drives up the costs of retailing, even though wages are half what they used to be. A well-paid union job, in which employees serve customers continuously, costs less "per unit" of sales labour than a low-paid employee sitting around waiting for customers.

Albertans spend more per capita on alcohol than people in any other province. Calgarians spend more money on booze per capita than people in any other major Canadian city, while Edmontonians come in at a more modest eighth. But liquor isn't like other consumer products. It has what economists call "special characteristics"—and these characteristics create social concerns. Evidence linking alcohol consumption and social problems such as fetal alcohol syndrome, family violence, crime and impaired driving is overwhelming. And because alcohol consumption is high in Alberta compared to the rest of Canada—and has been climbing since 1997—the potential for increased social costs under privatization is very real.

These problems, and alcohol abuse in general, lend support to arguments for public regulation and control over the marketing of alcoholic beverages. It's the government's responsibility to protect the interests of the general public against the abuse of alcohol and its costs, which are imposed by a minority of consumers. Yet efforts to restrict or prevent sales to high-risk customers are incompatible with the profit motives of private marketing. Promoting socially responsible behaviour with in-store displays about fetal alcohol syndrome or drunk driving, for instance, means surrendering retail space—and potential sales. Limiting and controlling the sale of liquor, especially to underage or intoxicated consumers, would decrease alcohol abuse. So would closing earlier every night. But private firms are in the business to sell product. When it comes to liquor sales, these incentives—private interest versus the public good—are inherently incompatible.

Case in point: in 1999, the Alberta Liquor Store Association sent retailers pamphlets and posters warning pregnant women about the effects of alcohol on their unborn children, a campaign the association saw as part of its "responsible consumption" mandate. But when I was working on a study about liquor privatization, I didn't see fetal alcohol syndrome literature in any private liquor store I visited.

Then there's the issue of taxes, which do two things: they increase the price, reducing consumption and any associated social ills; they also create revenue which governments use to help alleviate these problems. Alberta's pre-privatization percentage markup was a progressive tax; it increased as the price of a product went up, and people with higher incomes tend to buy more expensive beverages. But today's flat tax gives expensive products a "tax advantage" over cheap ones because the unit tax imposed is a smaller percentage of the purchase price. The bottom line? Liquor tax revenue is down. In effect, privatization has been subsidized by government.

Alberta has lost public revenue and our government has relinquished its control over the negative effects of drinking.

GREG FLANAGAN is an economist and assistant dean in the faculty of management at the University of Lethbridge. His report "Sobering Result: The Alberta Liquor Retailing Industry Ten Years After Privatization" was published by the Parkland Institute and the Canadian Centre for Policy Alternatives in June 2003.