Impaired Judgment
The Failure of Control States to Reduce Alcohol-Related Problems
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IMPAIRED JUDGMENT
The Failure of Control States to Reduce Alcohol-Related Problems

Will Privatization of Virginia’s ABC Stores Cause Greater Health Problems in the Old Dominion?

by

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**Introduction**

Should the Commonwealth of Virginia sell its Alcohol Beverage Control stores ("ABC stores")? These are state-owned and operated stores that sell packaged spirits, such as whiskey and vodka. Private merchants are prohibited by law from competing against Virginia’s ABC stores in the retailing or wholesaling of distilled spirits.

During the 2009 Virginia gubernatorial campaign, then-candidate and now Governor Bob McDonnell proposed such a sale. Mr. McDonnell predicted that the sale of the ABC system would reap about $500 million for the state government, funds that he promised would be used to pay for transportation projects.

Currently in Virginia, consumers can buy spirits only from the state’s monopoly system. In contrast, Virginians can buy packaged beer and wine from any retailer with a license to sell these beverages and such licenses are readily available and held widely, including by supermarkets and big-box retailers such as Target and Walmart. In short, in Virginia the sale of spirits, but not of beer and wine, is a government-owned and operated monopoly.

Opposition to the state government selling its ABC stores is based chiefly on public-health concerns. Opponents argue that the sale of such stores will encourage the excessive consumption of spirits as well as more under-aged drinking. Because spirits have higher alcohol contents than do beer and wine, opponents insist that government has a special obligation to keep a tighter rein on spirits sales. Supposedly, the monopoly system of ABC stores provides government with the ability to keep this rein tight.

The presumption that alcohol consumption poses unusually high risks to public health is not unreasonable. Consumed excessively, alcohol impairs its users’ judgment, making them more dangerous drivers and sometimes inciting them to violence. Excessive consumption of alcohol also can damage users’ physical and mental health.
However, such generalizations form far too weak a foundation to support the continuation of the ABC monopoly. Not only is the above reasoning incomplete, it also is not supported by key facts.

In this short paper we summarize the factual evidence on some of the chief public-health concerns raised by those who oppose the liberalization of spirits retailing. Fortunately, such evidence is readily available: it comes from the fact that 18 states, including Virginia, are “control” states; 32 states and the District of Columbia are “license” states – that is, jurisdictions that license private retailers and wholesalers to sell packaged spirits in competitive markets.¹

Such differences in policy regimes offer a “natural experiment” to test the claims of those who insist that government-monopoly retailing of packaged liquor provides public health benefits.²

If government ownership and operation of monopolized spirits retailing or wholesaling really reduces alcohol-related problems, states with these government monopolies would have fewer such problems than do states that allow spirits to be sold by private, competitive businesses. In fact, however, the data show that control states suffer just as many alcohol-related problems as do license states.

**Alcohol-Related Deaths**

Let’s look first at the most comprehensive, and ultimately most meaningful, statistic: annual total alcohol-related deaths per 100,000 persons.

Not surprisingly, the likelihood of dying from alcohol-related causes rises with per-capita consumption of alcohol.³ Our analyses reveal a highly significant correlation between alcohol-related death rates and per-capita alcohol consumption, a relationship which can be estimated. Specifically, a one-gallon-per-year increase in a state’s per-capita alcohol consumption increases that state’s alcohol-related death rate by about three percent.

While this kind of strong correlation can be seductive to policy makers, it should be noted that a one-gallon reduction in per-capita alcohol consumption is a 40 percent reduction in total consumption – a rather considerable amount. And, if a state were to achieve a 40 percent reduction in consumption, it would still have to craft a strategy for the 97 percent of deaths not impacted. This finding indicates that attacking problem drinking through population level consumption controls, the philosophy behind the control-state system, is not a particularly useful strategy. While the focus of this paper is to investigate the usefulness of the control-state system in fighting alcohol abuse, given the draconian decline in total consumption needed to achieve meaningful results, it calls into question population level control strategies.

In control states, for the years 2001-2005, an average of 33.79 persons, per 100,000 persons, died each year from alcohol-related causes. In license states, this figure is 34.64. The figure for the U.S. as a whole is 34.34.⁴ Clearly, there is not much difference here between the two kinds of states.
Breaking these data down on a state-by-state basis, and using various regression analyses to estimate the relationship between alcohol-related death rates in control states and such death rates in license states, we find no statistically significant relationship among the two types of states and their different regimes of spirits sales. Government-monopoly control of spirits does not reduce citizens’ risks of dying from alcohol-related causes.

**Binge Drinking and Drunk-Driving Fatalities**

What about more narrowly defined alcohol-related problems, such as binge drinking? Even here, the data lend no support to those who assert that monopoly-controlled retailing or wholesaling of spirits is an effective means of combating these problems.

Consider binge drinking. Rates of binge drinking among 12-17 year olds in control states averages 9.95 percent, while in license states it averages 10.17 percent. The national average is 10.09 percent.

For 18-25 year olds, binge-drinking rates average 42.77 percent in control states and 44.02 in license states. The national average for this age group is 43.58 percent.

As with total alcohol-related deaths, there is very little difference between the averages of these figures for control states as compared to those for license states.

Examining data from each of the 50 states and the District of Columbia using further specified regression analyses at 95 percent confidence intervals, we find that there is no statistically significant relationship between control states and license states in the rates of binge drinking among 12-17 year olds. The same is true for the rates of binge drinking among 18-25 year olds.

Government monopoly of spirits does not protect against the menace of binge drinking.

What about drunk-driving fatalities? Here, too, there is no statistically significant relationship between control states and license states. The average annual number of drunk-driving fatalities for control states was 31.06 per 100 driving fatalities (or 31.06 percent of motor vehicle fatalities were alcohol related in control states) in 2008; the average annual number of drunk-driving fatalities for license states in 2008 was 31.85. The national average was 31.57 per 100 driving fatalities.

More detailed regression analysis using data from all 50 states and D.C. finds no statistically significant relationship between the rates of drunk-driving fatalities in control states and such fatalities in license states. In other words, when comparing the percentages of drunk-driving fatalities among our 50 states and D.C., it cannot be said with any confidence that a decrease or increase in such fatalities is attributed to whether a state is a control state or license state.

Explaining the above findings is not difficult: adult alcohol consumption in control states is statistically no different than it is in license states. In other words, the data suggests that if a state shifts from being a control state to a license state (or vice-versa), that switch will not affect the amount of alcohol consumed, on average, by adults in that state.
The reason is mentioned in endnote 3 – namely that to change measured per-capita consumption of alcohol requires, as a practical matter, changing the amount of alcohol consumed by abusive drinkers. However, changing the consumption of these drinkers cannot be done with policies and taxes that are anything short of draconian. A government monopoly on spirits hardly amounts to a draconian restriction on alcohol sales, especially in states such as Virginia, where consumers are free to purchase beer and wine at supermarkets and at convenience stores.

**Conclusion**

There is no question that excessive alcohol consumption poses risks to personal and public health. However, the leap from this well-known risk to a compelling case for a government monopoly in distilled spirits is simply too long.

The data that we summarize here speak loudly that government-spirits monopolies do not generate the health benefits that their proponents trumpet. The plain fact seems to be that alcohol-related problems are unrelated to whether or not a state government prevents private, competitive businesses from selling spirits to the general public.

Why might this be so?

It is probable that, because beer and wine are substitutes for spirits, any dampening effect of government monopoly on spirits consumption is offset by higher consumption of beer and wine. That is, if it is true that government monopoly of spirits makes such spirits more costly for citizens to acquire, citizens can easily shift their alcohol consumption from spirits toward these other alcoholic beverages.

We cannot determine in this paper whether Gov. McDonnell’s prediction of a $500 million sales price for Virginia’s ABC stores is accurate. That is another question. However, we can and do say with much confidence that the alleged health benefits of government-spirits monopolies are illusory. Privatization of, and more competition in, the wholesaling and retailing of spirits in Virginia are highly unlikely to increase alcohol-related health problems in the Commonwealth.
Endnotes

1 Pennsylvania, Utah, New Hampshire, and Mississippi also have either wholesale or retail monopolies on wine as well. However, the primary impact of the control-state system is on distilled spirits.

2 This test is made more trustworthy by the fact the geographic dispersion of control states and license states is wide. Save for the desert southwest, every region of the continental United States has some control states.

3 As an aside, it’s worth noting that, because most truly abusive drinkers are not particularly responsive to prices, it takes really draconian regulatory restrictions or high taxes to actually get problem drinkers to significantly reduce their drinking. And because abusive drinkers’ alcohol consumption accounts for such a large percentage of measured per-capita alcohol consumption, meaningfully reducing measured per-capita alcohol consumption is impossible without such draconian restrictions or taxes.

4 These figures were derived from the Center for Disease Control’s Alcohol Related Disease Impact (ARDI) software. The ARDI data represent estimated annualized deaths between 2001-2005. State population numbers are U.S. Census Bureau figures for July, 2005.

5 Binge drinking is defined, rather vaguely, by the National Institute on Alcoholism and Alcohol Abuse as the consumption of five or more drinks for a male, or four or more drinks for a female, during a single “occasion.”

6 Binge-drinking data were taken from the National Survey on Drug Use and Health, Substance Abuse and Mental Health Services Administration, 2006/2007.

7 Traffic-fatality data were taken from Traffic Safety Facts Research Note, August, 2009, National Traffic Safety Administration, National Center for Statistics and Analysis. Figures represent accidents in which the driver had blood alcohol content (BAC) of 0.08 or higher.
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