PRIVATIZING PENNSYLVANIA'S WINE AND SPIRITS STORES: WHAT'S THE HARM?

Testimony of Ted R. Miller, PhD
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I am a Principal Research Scientist at the Pacific Institute for Research and Evaluation (PIRE) in Calverton MD. PIRE is a non-profit organization specializing in preventive health research and its translation to practice. I have more than 25 years experience analyzing the costs of substance abuse, injury, and crime, as well as the savings from prevention. In previous studies, I estimated the costs of underage drinking, impaired driving, juvenile violence, injury, and alcohol-involved crime in Pennsylvania.

An important fiscal and life quality decision faces Pennsylvania lawmakers. The Commonwealth is considering privatizing its wine and spirits stores. The effects of privatization have been studied carefully in several places, notably Iowa and parts of Canada. Based on those studies, I estimate that privatization would raise spirits sales in Pennsylvania by 21%, wine sales by 64%, and total alcohol sales by 13%. History suggests that within a few years, those sales would come from 1,300 new retail wine and spirits outlets.

Private sales clerks do not check IDs as diligently as state employees. As a result, more than a quarter of the increased sales would be liquor consumed illegally by children and youth under age 21. Pennsylvania would rise from the 42nd lowest state in alcohol consumption per youth to 27th.

Consumption increases due to privatization have proven harmful and costly. Privatizing would increase violence, burglary, vandalism, drunk driving, reckless sex, teen pregnancy, and addiction in Pennsylvania.

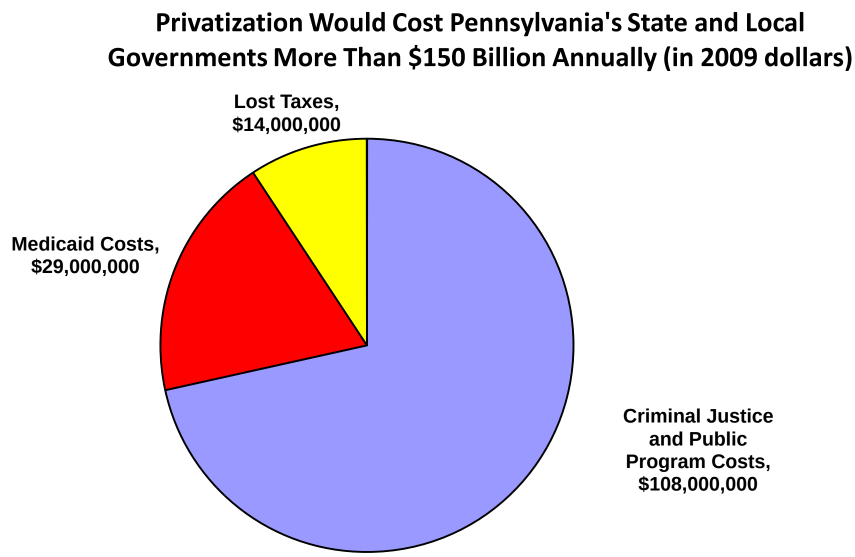
I estimate the quality of life lost would equate to 800 deaths per year including 570 due to injury and 230 due to alcohol-attributable illness.

The harms from rising consumption would cost Pennsylvania residents an estimated $3.6 billion annually. That includes $320 million in medical costs, $110 million in criminal justice and public program costs, $100 million in property damage and other resource costs, $890 million in lost work, and quality of life losses valued at $2.2 billion. About $170 million of the medical costs and $500 million in wage and household work losses would result from increased alcohol-attributable illnesses. Those increases largely would not materialize for several years.

In the first year, annual costs to Pennsylvania state and local governments would be roughly $135 million including $108 million in criminal justice and public program costs, $13 million in medical costs, and $14 million in lost sales taxes. Over the next 10 years, as the longer-term costs kick in, the annual bill would exceed $150 million. The figure in my written testimony shows the long-term bill.

My written statement describes my calculation methods.

Next you will hear from the authors of the Commonwealth Foundation study. The study is a magician's masterwork. Let me tell you about the smoke and mirrors it used. That will help you to understand the study better. Here's the key piece of misdirection. It is about liquor control states, not about states where



state stores sell alcohol. Of the eight states it identifies as having full control, only two – Pennsylvania and Utah – have stores run by state employees. Three others contract out retail sales to a small group of local retailers. The remaining three exercise no control over retail sales or contract with all comers.

The moderate control category includes two states with all spirits sold at retail by state employees – North Carolina and Virginia. It includes five states that contract out, including Ohio where Kroger's Supermarkets has been buying up the contracts and typically sells liquor at the checkout counter 12 hours a day, seven days a week. Commonwealth put three states in both their moderate and light control categories. Perhaps these states weakened their controls over time. But the important point is that all three control only wholesale sales. So the illusion is that control states are states with state stores. They are not.

METHODS

I estimate outlet density will rise by 214% to 3.14 times its current level based on the analysis of spirits privatizaton in Alberta by Gruenewald et al. (1992). Using US data, Gruenewald et al. (1992, 1993) estimated that spirits consumption rises by 1% and wine consumption rises by 3% for every 10% rise in outlet density. This estimate incorporates associated changes in store hours and promotion. (Because outlet data no longer are collected, the study cannot be updated.)

So the increase in spirits consumption will be 214% * (1%/10%) = 21.4%. The rise in wine consumption will be three times as large (64.2%).

According to NIAAA's Alcohol Epidemiologic Data System Surveillance Report 87 (LaVallee et al., 2009), 27.2% of the ethanol consumed in PA comes from spirits and 11.1% comes from wine (which contains much less ethanol per gallon). Thus the consumption rise would be 21.4% * 27.2% + 64.2% * 11.1% = 12.9%.

Youth currently consume an estimated 11.1% of the alcohol in Pennsylvania (Office of Juvenile Justice and Delinquency Prevention, 2009). Miller et al. (2006c) predicts that underage consumption would rise by 32.3% if a wine and spirits monopoly were eliminated. Youth consumption would rise to 11.1% * 1.323 = 14.7% of total consumption. Underage drinking would be responsible for 28% of the total consumption increase ((14.7%-11.1%)/12.9%). The major reason that underage drinking would increase so dramatically would be the lack of the proven diligence in identification checking at Pennsylvania state stores, which annually card more than one million customers.

Costs of alcohol-related harm came from Table A-5 in a recent Federal report (Miller and Hendrie, 2009). I separated other resource costs into property damage versus criminal justice and public program costs using data from Table 1 in that report and from Miller et al. (2006a) and Zaloshnja et al. (2009). I inflated the cost estimates to 2009 dollars. I adjusted them to Pennsylvania prices using ACCRA price indices and per capita income data. I only estimated the costs of reckless sex for underage drinkers, taking my estimate from the 2009 Office of Juvenile Justice and Delinquency Prevention fact sheet for Pennsylvania. The methods used in that fact sheet are based on Miller et al. (2006b). I assumed harm would rise proportionately with per capita consumption. That assumption is conservative, as consumption rises typically result in larger increases in over-the-limit consumption.

I estimated that 20% of the medical costs of alcohol-attributable injury and illness would be paid by Medicaid, and applied PA's 45.19% Medicaid matching percentage.

To calculate lost taxes, I estimated that 67% of the work loss was work as opposed to household work and fringe benefits and multiplied that portion of work loss times the ratio of sales and personal income taxes to income in PA (0.0568) drawn from Census data from the 2008 Annual Survey of State Government Finances and the US Statistical Abstract.

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