

**MAJORITY POLICY COMMITTEE
HEARING
Testimony of
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National Alcohol Beverage Control Association (NABCA)
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Since the 21st amendment was passed in 1933 repealing prohibition, control of the sale and distribution of alcohol beverages has resided with state governments. There are two distinct types of alcohol distribution; license and control. Established in 1938, the National Alcohol Beverage Control Association (NABCA) is the national association representing those political jurisdictions that chose a control system. There is no simple dichotomy between license states and control states as all states regulate the distribution of alcohol to some extent, through licensing of outlets, limitations on hours of operation, taxation, and other policies. The single feature that distinguishes license from control states is that control states take ownership of the product at some point in the transaction cycle.

It is important for state governments and citizens to understand the implications of a trend towards privatization of these control systems. Towards this end our office has transmitted to the committee a body of research that will support the considerations raised in this testimony.

It is well established by research that availability of alcohol has substantial effects on alcohol consumption and alcohol problems.

Moves by states toward privatization often lead to changes in the way alcohol is made available to the public. A basic distinction between control and license systems is the differing motivations. A public agency controlled system is created to provide a public service. By contrast, private owners are in the business to make money. These differing motivations tend to result in differences in availability, such as:

- A number of studies have shown that license states have greater outlet density than control states.
- State stores tend to restrict hours much more than private outlets. In particular, they are closed late at night when much problem drinking takes place.
- There is research that shows state stores are less likely to sell to youth than are private retailers.
- There is evidence that control states have more restrictions on advertising of spirits than do license states.

A long history of research establishes that changes in alcohol availability and consumption are associated with changes in alcohol related problems. Studies find a

direct relationship between alcohol consumption across the entire population and the prevalence of problem drinking and specific alcohol-related social problems. Because of the predictable nature of increases in health and social problems resulting from increased consumption it is possible to estimate the costs to society of privatizing alcohol sales. The methodology used for estimating costs can be found in "Privatizing State Alcohol Control Systems: Issues and Effects" (Pacific Institute 1997). If privatization of a limited set of beverages increases total consumption by 5% (the amount of increase measured when Iowa privatized spirits and when Montana and Maine privatized wine) the societal cost would rise by about \$25 per year per resident. In Pennsylvania, with a population of 12 million that would equate to \$300,000,000 per year.

What is the impact of privatization on state revenues? Privatization has often been justified as a way of increasing revenues to the state. The state is expected to gain immediate revenue from selling off the state stores. In practice, however, assets are often sold for less than their expected value and long term annual revenues from alcohol sales often fall after privatization based on studies conducted.

In addition control jurisdictions generate 102% more revenue than license states in the sales of spirits according to 2004 Adams Handbook (A comprehensive annual report on the beverage alcohol industry). Control States generate \$22.77 per gallon revenue compared to \$10.77 for License states. When this disparity is combined with lower consumption and reduced incidence of alcohol-related problems (and the resultant savings for the state), privatization clearly has economic costs.

It should also be noted that the Pennsylvania Liquor Control Board has long been an innovator and leader in the areas of marketing, licensing, and education or social responsibility. All of these areas provide value to the Commonwealth and its individual communities. They have contributed to the establishment of best practices throughout the United States and have been recognized as national leaders during the past several years. The agency's ability to balance it's public missions of providing beverage alcohol and the protection of all Commonwealth citizens is why it is considered the valuable asset that we and many others in and outside of Pennsylvania recognize it to be.

In conclusion...Alcohol is a unique commodity: It requires unique approaches in regulating its distribution, sale and consumption. Research shows that the control state system limits physical and social damage the misuse of alcohol causes, yet generates revenues for its jurisdictions. This system in Pennsylvania provides the unique balance and approach for this unique product.

Thank you.