**Is Privatization of Liquor Sales an Appropriate Option for Utah?**

**Abstract**

In order to understand a topic currently under debate on Utah’s Capitol Hill, we present background information on the organization behind current liquor sales and explore reasons why the methods are being questioned. We look closely at economic benefits of privatization. Finally, we examine health and safety arguments against it.

**Introduction**

When Prohibition ended in 1933 with the ratification of the 19th amendment, Utah chose to control the sale of Liquor as a “control state”, meaning that the distribution of alcoholic beverages is under state control rather than private enterprise (Lythooe, 1991, p.C1). Two years later the Utah Department of Alcoholic Beverage Control (DABC) was created to regulate the sale of alcohol to those who demand it while still protecting the rights of those who want nothing to do with it. One key tenant of the DABC’s purpose is to make liquor available to responsible adults, “but not to promote the sale of liquor” (DABC, 2008, para. 3). They believe that by maintaining a state monopoly on liquor, it doesn’t incentivize sales to minors or other irresponsible practices. It also creates a major source of income for the state.

The methods of control and regulation of liquor sales has become a hot debate among Utah citizens in the last few years. This paper will explain why, and explore privatization as a possible solution by examining economics, regulation, and public opinion.

**Discussion**

**Current Organization**

The DABC is administered by a part-time commission consisting of five members, no more than three of which can be of the same political party, and two of which must be drinkers themselves. The commissioners are appointed by the governor. They create policy and rules, and issue and revoke licenses. Their goal is to control alcoholic beverages in a way that encourages moderation.

Utah has 44 state-run liquor and wine stores, and more than 100 package agencies or contract stores. A state-run liquor store is generally in an area of dense population and carries a wide variety of liquor, wine, and higher-alcohol beer. Wine stores focus, obviously, on wine, and the DABC runs two specialty wine stores that carry wines, liquors, and beers that have limited availability.

Contract stores, or package agencies, are privately-owned businesses that contract with the state to sell alcohol. They are located either in more rural areas of the state or in resorts and hotels. Package agencies can either sell beverages on commission, or own the inventory themselves depending on what type of classification they have.

**Reasons for Discussing Change**

There have always been grumblings by Utah’s drinking population about the hoops one has to jump through to get a drink, but the debate over regulation has intensified recently. This is due in part to scandal in the management of the DABC and the changing demographic of Utahans to more diverse backgrounds and lifestyle choices.

Recent audits of the DABC have revealed some disturbing practices that have many people questioning the efficacy and ethicality of said department. In May 2011 it was discovered that there was gross mismanagement of a package agency in Eden, Utah. The agency was only open for about a year, but still managed to lose almost $300,000 of the state’s money. The Office of the Utah Legislative Auditor General states that mismanagement by the DABC included continuing shipments to the agency despite being behind on payments, failure to report possible criminal activity by the operator, increasing the operator’s compensation retroactively to help minimize his debts, failure to perform timely audits on the package agency, and failure to complete a criminal background check on the operator. (Schaff, 2011, pp. 1-2)

Another scandal broke in August 2011 when it was discovered that the director of the DABC, Dennis Kellen, was doing business unethically with his son’s packaging company, Flexpak Inc. Kellen directed over $272,000 worth of business to Flexpak since 2006, for various maintenance services and supplies. State procurement law was broken because Kellen made sure that the majority of the payments were “just under the $1000 threshold that requires an official agency request for competitive bids” (Leonard, 2011, para. 13). Kellen resigned in August when it was requested by Governor Gary Herbert. The whole ordeal has weakened citizens’ trust in the department and has many people wondering if government should be involved in this at all.

Adding to the debate is the fact that Utah’s demographics are changing, and along with it, the needs and desires of its citizens. According to Pamela S. Perlich, Senior Research Economist at the University of Utah (2008), “Utah is in the midst of an unprecedented economic, demographic, and cultural transformation….The cumulative impact of these trends is that Utah…. will continue to become much more diverse in many ways, including age, culture, language, nativity, race, ethnicity, religion, and socioeconomics” (p. 1). Utah’s growth rate from 2000-2010 was about 24%. During that same ten years, the increase of Utah liquor sales was more than quadruple the growth rate. Although it’s difficult to find tested evidence that this demographic change directly influences liquor demand and sales, it would be logical to conclude that the increase is, at least in part, affected by the changes in the culture and lifestyle of Utah’s new demographic.

**Economics**

The state monopoly on liquor is an extremely profitable one. The DABC reported over $62 million in net profit for fiscal year 2011. That consisted of over $130 million gross profit from sales and $2.5 million from licenses and fees, minus $31 million in expenses and $45 million in taxes.

That $62 million in profit is transferred to the state’s general fund, to be used as the legislature dictates. About a third of the tax total comes from state sales tax, and the remaining 2/3 is a mandated 10% of sales going directly to the school lunch program.

One concern regarding privatization is the possible loss of income for the state. Francine Giani is the executive director of the Utah Department of Commerce, and the interim director of the DABC. She stated, “I don’t think privatization is the answer, I think you would lose money coming to the state” (Romboy, 2012, para. 2). The loss of millions in profit would seriously impact certain government programs.

However, if liquor sales were completely privatized, it’s expected that the state would still collect the sales tax and the school lunch tax. It’s reasonable to expect that a hefty liquor tax would also be established. If we assume the same amount of sales, and pass all operating costs to the private sellers, the state would have to levy a 9% tax on wholesale liquor in order to make the same amount of money from liquor sales without having to be involved in the sales at all. That would still allow the retailer to mark the product up by at least 70%, while still bringing discounts to the consumer compared to what they pay now.

**Privatization is Good for Business**

Total privatization would necessitate business development in the form of wholesalers and retailers. Businesses pay taxes, so that’s another source of income for the state. Privatization may also be beneficial to existing Utah businesses. David Morris, a local bar owner, said “I also pay retail price -- I don’t get a wholesale discount. I spent $200,000 with the DABC last year and I paid the same price as a hobo walking in [a liquor store] buying a pint” (Peterson, 2011, para. 6). If bar owners and restaurateurs could buy liquor wholesale, just like any other product, it could help them succeed.

**Arguments against Privatization**

Lawmakers and citizens are concerned about public health and safety, and alcoholic beverages certainly come with risks. Utah State Senate President Mike Waddoups stated “I think it’s a matter of trying to do what’s right, to control access to minors and DUI drinking” (SLCCTV, 2011 7:37), when asked about privatizing liquor sales. The state liquor stores and package agencies are heavily regulated and patrolled. It would be more difficult to ensure that liquor was not sold to minors if it was available in every grocery store and gas station. There are already regulations in place to keep minors from purchasing light, or 3.2% alcohol, beer in grocery stores, but stricter enforcement would probably be necessary to ease the public’s worries.

Drunk driving is a serious concern, and Utah currently has one of the lowest DUI rates in the nation. A study produced by the Substance Abuse and Mental Health Services Administration (SAMHSA) in 2008 focused on the percentage of adult drivers who have driven under the influence of alcohol at least once in the previous year. It shows that the average of the control states (14.5%) and non-control states (16.5%) is a 2% difference (data table). Indeed, the control states do fare better in this area, but not significantly.

**Conclusions**

It’s clear that when looked upon as a purely economic problem, privatization would be a smart choice for Utah. However, the issue is complicated by the human factor. Although Utah is undergoing change, it may not yet be significant enough to warrant a free market on booze.

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