POLITICAL SCIENCE UNDERGRADUATE REVIEW

VOL. 1
ARTICLE 7

Fall 2016

Drinking in Private: A Public Concern

By Ryan McCarville

The privatization of the liquor distribution system in Alberta was undertaken by a Conservative government motivated by achieving fiscal austerity, along with greater consumer benefit, both in cost and selection. The privatization of this Crown corporation was rationalized as an action that, above all else, held the individual's best interest in mind. I argue that, in fact, this decision created the opposite effect. By analyzing the neoliberal governing paradigm and the structures created with New Public Management (NPM), this paper will outline the forces driving privatization of Crown corporations. I will advocate for a return to a public system of distribution by classifying alcohol as a unique product in the consumer market. Finally, I will analyze the indirect costs associated with alcohol consumption by comparing public and private markets across Canada. Viewing alcohol distribution in a holistic lens will quell the notion that the market mechanism is capable of managing liquor distribution, and highlight the mischaracterizations and flaws in the Progressive Conservative government's 1993 decision.

Introduction

In the 23 years since the Progressive Conservative party of Alberta, under Premier Ralph Klein, privatized the Alberta Liquor Control Board (ALCB) it has, in turn, contributed to nationwide debate regarding the logical evolution of Crown corporations. Within this debate resides a question pertaining to the pragmatism of privatization; is it in the best interests of Canadians to privatize Crown corporations? While this question, in and of itself, is arduous, a more feasible area of research within this topic can be found in analyzing Canadian liquor distribution systems and policy. This is not to say that liquor distribution in Canada is miniscule in any way, as the Canadian liquor industry occupies a market that generated \$20.5 billion in total revenue in 2014 (Statistics Canada, 2015). Former Supreme Court Justice, The Honorable Morris J. Fish, stated that since Canada's infancy, liquor has held contentious notions, not only in terms of regulations and constitutional debate, but also in the magnitude of effects it has on the social and physical well-being of the population (Fish, 2011: 194). In terms of administration, liquor distribution and regulation in Canada falls within the realm of provincial jurisdiction, aside from the wholly private system in Alberta mentioned above. It should be noted, however, that the majority of provincial jurisdictions operate in a 'mixed system', in which a cluster of private firms are

granted rights to operate small scale specialty retail stores (the majority being wine boutiques), but are still undoubtedly considered public Crown corporations. However, British Columbia exemplifies the closest balance that is associated with a truly mixed system. Starting in 2003 there was a sizeable expansion of privately owned and operated liquor retail stores in British Columbia, while development of publicly owned stores was stymied. This essay will further explore the British Columbia system, for the purpose of analysis and contrast, as it can provide unique insight into the distinct characteristics of both systems. With regards to the systems, the dichotomy of public and private structures can be viewed in two distinct interpretations through the role of government in the economy as a whole. The principles of the free market economy, advocated by renowned economist, Milton Friedman, are inclined to prefer full privatization. This system is rooted in the belief that the free market mechanism is competent at meeting the needs of the population (Peck, 2010: 3). While, on the other side, Noam Chomsky relays that "Standard economic history recognizes that state intervention has played a central role in economic growth." (Chomsky, 1999: 30). Another shortcoming of neoliberal doctrines, which will be used to refute privatization, is the way in which health and social factors are undoubtedly delegitimized and undermined in favour of economic gain (Chomsky, 1999: 32).

By analysing the underlying political, economical and social factors of the fully privatized structure of Alberta's liquor distribution system and contrasting it with fully public and mixed systems, all relevant stakeholder needs in provincial liquor distribution systems will be identified. By understanding varying degrees of privatization and public ownership, and taking into account New Public Management (NPM), this essay will present an argument advocating for the continuation of publicly owned liquor distribution systems, through a refutation of the foundations of privatization. Drawing upon the three underlying factors, and establishing their holistic nature will undoubtedly quell the notion that the market alone is capable of managing liquor distribution and regulation.

Neoliberal Governing Paradigm and New Public Management

To understand the framework of intellectual reasoning in the privatization of Crown corporations it is paramount to identify the current governing paradigms and forces that influence the Canadian political landscape, as a whole. The stark shift from the postwar welfare state, influenced by John Maynard Keynes, to the principles of the neoliberal state can be seen in the work of Milton Friedman and the vehement opposition to the principles of an interventionist state:

The thirty-year war that Friedman and his colleagues waged against the Keynesian intellectual occupation began in earnest in the mid-1940s, reaching its moment of vindication in the mid-1970s. The arc of the ideational project of neoliberalism is closely synchronized with that of Chicago School economics, beginning with a postwar reconstruction, maturing into an increasingly assertive critique of Keynesian theory and practice...prompting an urgent search for new approaches. (Peck, 2010: 84)

This new approach is seen as the shift to a neoliberal state and is built upon a market oriented philosophy, where freedom of choice among individuals and a highly competitive global free market have become hegemonic. The emergence of neoliberalism forged systemic changes in public service structure and philosophy, which is seen through a system known as New Public Management (NPM). The principles of NPM were derived from the belief that “bureaucracies were inefficient and self-serving...it was argued that the ‘discipline’ of the market and customer pressure would provide the lever for ‘better’ public services and the control emphasis moved from process to outputs.” (McLaughlin, 2002: 100). NPM can best be described as promoting efficiency over equity, in that the system is, first and foremost, concerned with efficiently facilitating the provision of goods and services to the market (Lane, 2000: 95). The distinction in viewing a collective population as a market ultimately illustrates that NPM represents a radical departure from a view that defines a population as citizens that collectively benefit from public services to another that portrays these citizens as customers who, in turn, consume products and services in order to maximize their individual utility. This shift undoubtedly causes individuals to act as such, and therefore places more importance on personal gain, rather than public welfare. While this specific shift within neoliberalism can be seen as nuanced, when it is used to describe the relationship between citizens and public services, it becomes fundamental in its nature and hegemonic in contemporary political discourse. With an understanding of the principles of NPM, a discussion regarding the evolution and current status of the liquor distribution system in Alberta follows below.

Alberta’s Private Distribution System and Influences

As outlined in the above sections of this essay, the privatization of the ALCB can be attested to the hegemonic governing paradigm of Canada, along with the rise and ubiquity of NPM in Crown corporations. The political influences of 1993 should also be noted, as the financial circumstances that Ralph Klein and the Progressive Conservative party inherited assisted in the decision of privatization; the ALCB model of ownership was shifted from the public arena to the private sector in an attempt to differentiate from the previous Tory government and provide revenue to contribute towards the accumulated public debt (Bird, 2012: 329, 333). The emergence of the new Reform party, although it had posed no provincial threat of competition at the time, also forced the Progressive Conservatives to increase fiscal austerity measures. This was, in large part, because of the aggressive Reform rhetoric that called for lower taxes and an outright rejection of government deficits (Bird, 2012: 330). The action of the Progressive Conservative party to privatize the ALCB can be seen then as a calculated and pre-emptive political manoeuvre. Provincial Crown corporations, as seen by the Progressive Conservatives, involved in the liquor retail market were viewed as inefficient and disadvantageous to customers because of the monopoly in which they operated. The fundamental nature of a monopoly, seen as a structure that serves to control all aspects of a particular industry, is not a favourable alternative for the free market principles of neoliberalism, NPM, and those political parties who advocate for reduced government presence. Finer details of reasoning behind liquor privatization are argued in an observance of the minutiae visible in the retail environment of publicly run liquor distribution boards. Advocates for privatization relay that there is a major restriction of choice among inventory, limited access to physical locations and the

marginalization of smaller breweries and suppliers from the market (Masson and Sen, 2014: 4). Finally, in terms of accessibility, privatization undoubtedly saturates the market. Retail stores in Alberta are open seven days a week and can operate from 10 a.m. until 2 a.m. (ALGC, 2012: 4.1). Along with increased hours, since privatization, there has been a sizeable increase in the density rates of retail liquor stores within all of Alberta (Popova et al., 2009: 514).

Classifying Alcohol in the Market

As a product for consumption in the market, alcohol can be described in a number of radically different ways. The purpose of this section is to succinctly highlight the characteristics of alcohol that separate it from all other consumable goods, hence, requiring a sound regulatory body presiding over it. Unique to most other consumable goods available in Canada, increases in alcohol consumption has been proven to be associated with chronic diseases, and alcohol specific death and injury, such as impaired driving crashes, domestic abuse and homicides and suicides (MADD, 2014; CAMH, 2010; Rehm et al., 2006). Every province and territory in Canada is responsible for defining the legal drinking age for purchase and consumption, with the range falling between 18 and 19 years of age. Restriction on age can, in part, be interpreted as recognition by governments that alcohol does, in fact, possess qualities that has the potential to negatively impact society if not administered in a responsible manner. With regards to economic impact, a recent study found that alcohol related addictions, injuries and deaths led to a total indirect loss of just over \$7.1 billion (Rehm et al., 2006: 9). So while many consumer goods possess the possibility to limit an individual's economic contribution, few have as strong of an effect as alcohol. This loss in economic contribution, overall health of the population and negative social consequences that are linked to increased alcohol consumption prove that special consideration is needed when defining alcohol as a consumer good. Alas, as will be described in further detail below, deregulated markets and the principles that guide privatization cannot be considered when evaluating provincial liquor distribution systems.

A Holistic (and Public) Approach to Alcohol Distribution and Regulation

Privatization has been described above as an act that can be attributed to short sightedness and a narrow focus based around ideological influences that shape economic and political strategy. This type of discourse, present in political discussions and the media, facilitates and perpetuates a dissemination of deficient information on privatization. While benefits are clearly articulated, the glaring omission that proponents of privatization largely fail to account for are broad, overarching societal risks. Campanella and Flanagan noted that "Managing the supply of alcohol, both economically and physically, ensures the greatest level of social welfare, and evidence indicates a public liquor monopoly is institutionally superior to succeed at this level." (2012: 6). With this being the case, the degree of interconnectedness of negative effects that alcohol possesses requires a deeper

and more connected analysis on the associated social, economic and health costs to Canadian citizens.

A recent publication that aggregated retail price studies of private establishments in both Alberta and the select private outlets in British Columbia found that there was, in fact, no solid evidence that would support the notion that private retailers offer lower prices (MADD, 2014: 14). Another recent report conducted a survey of alcohol prices across Saskatchewan, Alberta and British Columbia, and discovered that the prices in Alberta were, in fact, no lower than those in the other two provinces, which was consistent with the findings of more comprehensive studies they had also examined (Campanella and Flanagan, 2012: 11). The authors of this study do reveal, though, that a closer examination of individual liquor prices in Alberta revealed something that is largely unique to the province:

Alberta is one of the only provinces in Canada without a minimum pricing policy in retail stores. The absence of a regulated price floor allows private liquor retailers to offer certain products at heavily-discounted prices. It is common in Alberta to see advertisements for alcohol products listed at “door-crasher” prices. “Door-crasher” specials feature loss-leaders, products sold below cost in order to bring customers into the store, where they might then purchase other products with larger profit margins. (Campanella and Flanagan, 2012: 20).

But does the potential for lower prices in the market provide overall cost effectiveness, or any other economic benefit to Canadian citizens? Quite simply, no. A more sophisticated answer to this question can be developed by understanding the burden that lower prices have on hospital admissions, loss of individual economic contribution and impacts to tax revenues.

A study that analysed the relationship between minimum alcohol pricing and hospital admissions in British Columbia over a 20 year span concluded that as minimum alcohol prices were raised, hospital admissions for alcohol related injuries (and overall consumption) declined (Stockwell et. al, 2013). This relationship illustrates the destruction that unregulated liquor distribution can have on the Canadian population, but also raises further questions regarding the other factors mentioned in the introduction of this essay. The linkages between economic factors and individual security and well being, specifically, targeted crimes, are also a contribution that privatization and NPM fail to fully account for and effectively manage. A group of researchers found a strong inverse relationship between levels of minimum alcohol prices and the amount of reported crimes against individuals in British Columbia from 2002-2008 (Stockwell et. al, 2015). The clear articulation that higher minimum alcohol prices lead to less crime against individuals provides a necessary and sobering balance to the profit motive of private retailers that comprise the landscape of neoliberal markets. Further examination of injuries associated with alcohol, as outlined earlier, leads to a realized decline in an individual’s ability to positively contribute to the Canadian economy.

A discussion on general tax burdens from increased hospital admittances and reported crimes against individuals leads to another compelling public issue that is outside of the realm of privatization. While governments are faced with the perpetual problem of public pressure to deliver public services without an increase in taxes (Bird, 2015: 4) and advocates of privatization generally lobby to reduce taxation (Campanela, 2014: 4), an argument could be made in favour of liquor privatization, albeit severely flawed. The Progressive Conservative party of 1993, and, generally, all right-leaning political organizations possess an ideological stance that resists raising tax rates. The privatization of the ALCB can then be seen as having a foundation built upon a distinct ulterior motive, in that “Essentially, through privatization, the Alberta government created a new political actor likely to lobby the government for precisely the sort of tax policy to which the government is ideologically predisposed.” (Campanela and Flanagan, 2012: 14). The direct nature in which the privatization of liquor control boards has on public welfare service expenditure levels serves more as a cost than benefit (socially and economically). As noted above, alcohol has a variety of externalities that manifest in an increasing trend as consumption increases. The main external costs related to alcohol, and ones that cause the highest levels of tax burdens, are a loss of economic contribution from injury, law enforcement, and hospital admittances and rehabilitation. A study that compiled all of these related costs found that Canadian citizens were faced with a \$14.6 billion loss in 2002, and within that national loss, Alberta accounted for \$1.6 billion, which was third highest among all provinces and territories (Rehm et. al, 2006: 2, 10). This is evidence that viewing liquor through a lens of a purely privatized profit motive actually negatively affects the province more than, say, the Liquor Control Board of Ontario (LCBO). The publicly owned liquor control system in Ontario values a dedication to ensuring that all alcohol products are distributed in a socially responsible manner, in part by ensuring that staff members are properly trained to identify potential underage citizens and acquire credentials from any member of the public that attempts to make a purchase (Campanela and Flanagan, 2012: 20; Bird, 2015: 8). Whereas in Alberta, individual retailers are more likely to not enforce age restrictions to alcohol purchases because of the highly competitive nature of a privatized market (MADD, 2014: 12). This is troubling, because as this essay has highlighted, increased consumption is inherently linked to unfavourable economic and social costs.

Finally, this essay would be remiss if it did not briefly describe the impact that increased density rates of alcohol retail stores, due to privatization, has had on the health of the general public. An examination of privatized stores in British Columbia found that as density rates increased, so did the rate of consumption and alcohol related hospital admittances (Stockwell et al., 2013: 2019). So whereas privatization can be seen to satisfy accessibility demand, it comes at a cost that contributes to the already staggering economic burden placed on the collective population of Canada by ubiquitous supply and consumption.

Conclusion

When political ideologies are used as a main driver for achieving privatization of liquor distribution systems, calamitous results will undoubtedly be realized, as the analysis

in this essay proves. The difficulty in refuting privatization resides in the sophisticated manner in which these impacts must be viewed. The superficial façade of privatization, that highlights cost efficiency and rampant availability, is one that can have initial appeal to a large percentage of the Canadian population; but as the social costs (direct and indirect) of privatization policy are presented in a holistic manner, the framework of neoliberalism and NPM can be viewed as illegitimate in serving the public's best interests. While this essay does not totally refute neoliberalism, it does strive to delineate the governing paradigm as one that cannot be hegemonic in an absolute sense. The interconnectedness of liquor consumption to economic, social and health factors raises legitimate doubts about the ability of the free market mechanism to adequately serve citizens. Ultimately, there should be no uncertainty that liquor distribution and regulation is best left within the public sphere of governance.

References

- Alberta Gaming and Liquor Commission. 2012 *Retail Liquor Store Handbook*. 16 February 2012.
- Bird, Malcolm G. 2012. "Privatizing the Crown: The Exceptional Fate of Alberta's Liquor Control Board" *American Review of Canadian Studies* 42(3): 329-342
- Bird, Malcolm G. 2015. "The Embedded Crowns: The Evolution of Three Provincial State-Owned Enterprises." *Canadian Political Science Review* 9(2): 1-20
- Campanella, David. 2014. *A Profitable Brew: A Financial Analysis of SLGA and Its Potential Privatization*. Edmonton: Parkland Institute
- Campanella, David, Flanagan, Greg. 2012. *The Economic and Social Consequences of Liquor Privatization in Western Canada*. Edmonton: Parkland Institute
- Centre for Addiction and Mental Health. 2010. *Alcohol Retail Monopolies and Privatization of Retail Sales*. 14 May 2010
- Chomsky, Noam. 1999. *Profit Over People*. New York: Seven Stories Press
- Fish, Morris J. (Hon). 2011. "The Effect of Alcohol on the Canadian Constitution" *McGill Law Journal* 57(1): 189-209
- Lane, Jan-Erik, ed. 2000. *New Public Management*. New York: Routledge
- MADD Canada. 2014. *Provincial Liquor Boards: Meeting the Best Interests of Canadians*. April 2014