

THE MONOPOLY OPTION: OBSOLESCE OR A “BEST BUY” IN ALCOHOL AND OTHER DRUG CONTROL?

Robin Room

Centre for Alcohol Policy Research, La Trobe University, Melbourne, Australia; and
Centre for Social Research on Alcohol and Drugs, Department of Public Health Sciences, Stockholm
University, Stockholm, Sweden

R.Room@latrobe.edu.au

ABSTRACT

Given the attractive but problematic nature of psychoactive substances, legal markets in them are commonly subject to government controls, both as a source of revenue and to control levels of use and harm. One control option is government monopolisation of all or part of the market. The diverse modern histories of monopolisation for tobacco, opium and alcohol are described, along with evidence on monopolies' substantial effectiveness in raising revenue and in minimising harms. Interests and arguments opposing monopolies are described. Monopolisation has decreased in the neoliberal era, but the monopoly option has benefits for public health and the public interest.

GOVERNMENT MONOPOLY OF PSYCHOACTIVE SUBSTANCES: A RICH HISTORY

Alcohol, tobacco, opiates and many other psychoactive substances are attractive commodities, and in most circumstances can be sold for more than the cost of production and distribution. This makes control of the market in them attractive to governments, as well as to private economic interests, as a source of revenue.

Consuming them also carries considerable potential for harm, not only to the consumer but also to others. Heavy use of many psychoactive substances is a causal factor in injuries, illness and interpersonal and social problems. Governments may seek to control the market in these commodities, or even prohibit their sale or use, in the interests of public welfare and health. Governments thus have diverse interests in seeking to control the market in these attractive but potentially harmful commodities.¹ In some circumstances the interests may point in the same direction in terms of control policies, but the fiscal interest and the harm prevention interest in particular will often point in opposite directions.

¹ Mäkelä, K. & Viikari, M. (1977). Notes on alcohol and the state. *Acta Sociologica* 20(2): 155-179.

One way for a government to control a market in a commodity is to monopolise it, taking direct control of one or more aspects of the production and distribution of the commodity. This paper considers the history of the monopoly strategy and its purposes and effects, for tobacco, opium and alcohol. We find substantial and evocative differences between the three substances in the political and reputational history of their monopolisation. In this discussion, “monopoly” is construed quite broadly, to include monopolizing just one level or portion of the market – for instance, of only one type of alcohol, or only in a limited geographic area, or of only the retail level of the market, or of sales only for off-premise and not on-premise consumption – or even where some private participation in the same market is allowed, as in Ontario, for instance, where winery retail shops coexist with a government shop system also selling wine.

We focus particularly on two potential purposes of monopolisation: as a source of revenue, and in order to control the market in the interests of public health and welfare. In some circumstances, these purposes can actually be complementary. Raising the tax on the product will increase the revenue, and will also to some extent reduce the level of consumption – so that increasing taxes on alcohol is one of WHO’s “best buys”, for instance, for public health action on preventing non-communicable disease in which alcohol is a factor.² But from a fiscal perspective, the tax increase will increase revenue, since these commodities are attractive enough to be “price inelastic”, as the economists term it: that is, raising the price will reduce the quantity of sales, but not nearly enough to balance out the increased amount paid per unit.

However, in a broader frame of reference a thirst for revenue and an interest in serving public health and welfare are competitive purposes for a government (see footnote 1). Expanding the market with more sales results in more revenue, while public health and welfare interests are best served by reducing consumption. As we shall describe, the competition between these two interests is a crucial dimension in the history of government monopolies.

A primary motivation of governments in seeking control of the market in a commodity has long been to collect tax on the commodity. The tax could be collected directly by the government, but in the early modern period more often the right to collect such excise taxes was sold to private parties, “tax farmers”.³ In the course of the 18th and 19th centuries, tax farming was increasingly replaced by direct government taxation. Whether in the form of a tax farm or a direct excise, revenue from commodities like alcohol were a major source of revenue to many governments; for instance, the first domestic federal tax in the nascent United States, imposed in 1791, was on spirits. In support of the tax, Alexander Hamilton argued that demand for alcohol was inelastic, so that a tax would not constrain the market: spirits “had a hold on the attachments of mankind, which, especially when confirmed by habit,

² World Health Organization (2011) *From Burden to “Best Buys”: Reducing the Economic Impact of Non-Communicable Diseases in Low- and Middle-Income Countries*. Geneva: WHO & World Economic Forum. https://www.who.int/nmh/publications/best_buys_summary.pdf (accessed 7 April, 2019)

³ Ma, J. (2003). New public management in the early modern period: Lessons from tax farming history. *Administrative Theory & Praxis* 25(4):435-456.

are not easily alienated from them”.⁴ The inelasticity of demand for alcohol and other habit-forming commodities has long made them attractive targets for taxation.

Governments have also long sought to control alcoholic beverage sales from the perspective of public welfare. In this line, Hamilton also made a different and somewhat contradictory argument for the spirits tax; spirits were “the cheap drink of the laboring classes”, and the tax would restrain what had “become a ravaging plague” (see footnote 4). Governments have long perceived a need to control the conditions of alcohol sales and consumption, often by requiring that the sales points or persons be licensed. Thus in early modern England, alehouses were seen as “a threat to public order and morality”, and the Licensing Act of 1552 required that a licence be obtained and maintained to operate one.⁵

The government assuming direct control of all or part of the market was a further step beyond these fiscal and licensing controls. This step has been taken at various times by governments for different reasons.⁶ In communist economic systems, of course, the step was a general change, not specific to the particular commodities we are focusing on. In other circumstances, the step was often motivated by concerns about social welfare and health, and/or by a need for added revenue.

It should be noted that state monopolies are not the only vehicles of market concentration for psychoactive substances. Both the tobacco and the alcohol markets are substantially oligopolised within countries and for that matter internationally. Thus three major producers accounted for 90% of the tobacco market in the UK in the 1980s,⁷ and four producers for 88% of the market in the US in the 1970s;⁸ in 2008, the top five concerns accounted for 85% of the global cigarette market.⁹ In 2006, the top five spirits multinational companies accounted for 46% of the global branded spirits output, and the top five beer companies for 31% of branded beer output.¹⁰ With further consolidation, by 2016 one beer

⁴ Krom, C.L. & Krom, S. (2013) The whiskey tax of 1791 and the consequent insurrection: “a wicked and happy tumult”. *Accounting Historians Journal* 40(2): 91-113.

⁵ Brown, J. (2013) Alehouse licensing and state formation in early modern England. In: Herring, J., Regan, C., Weinberg, D. & Withington, P., eds., *Intoxication and Society: Problematic Pleasures of Drugs and Alcohol*, pp. 110-132. Basingstoke, UK, etc.: Palgrave Macmillan.

⁶ Room, R. (1993). The evolution of alcohol monopolies and their relevance for public health. *Contemporary Drug Problems* 20: 169-187.

⁷ Godfrey, C. & Maynard, A. (1988) Economic aspects of tobacco use and taxation policy. *BMJ* 297:339-343.

⁸ Clairmonte, F.F. (1979) World tobacco: the dynamics of oligopolistic annexationism. *Journal of Contemporary Asia* 9(3):255-273.

⁹ Callard, C. (2010). Follow the money: how the billions of dollars that flow from smokers in poor nations to companies in rich nations greatly exceed funding for global tobacco control and what might be done about it. *Tobacco Control* 19(4): 285-290.

¹⁰ Jernigan, D.H. (2009). The global alcohol industry: an overview. *Addiction* 104(1): 6-12.

company (AB Inbev) alone accounted for 28% of global branded beer output.¹¹ While wine is less oligopolised (the top 5 wine companies accounted for 11% of the 2006 global market – see footnote 10), the trend toward international consolidation of the wine market is also underway (e.g.,¹²). With their multinational reach, the leading alcoholic beverage companies are much bigger economic actors than any of the government alcohol monopolies.

THE DIVERSE EXPERIENCE WITH DIFFERENT SUBSTANCES

This paper focuses on historical experience with government monopolization of three particular psychoactive substances – tobacco, opium and alcohol. As we shall describe, there are substantial differences between psychoactive substances in the history of government monopolies and their primary motivation. After considering some aspects of the history for each of the substances, we will consider some more general conclusions which can be drawn from looking at the history across the substances.

Tobacco

In the case of tobacco, the primary governmental concern historically has usually been revenue. The prototype in modern history of a monopoly of a psychoactive commodity was the strong and profitable tobacco monopoly instituted in Venice in 1659,¹³ a model which was widely followed until recent decades. Around 2000, state tobacco monopolies still supplied about 40% of world cigarette consumption¹⁴ – and this was after a wave of privatizations in 32 countries in the period between 1991 and 2000, impelled variously by the break-up of the Soviet Union, by rules of the European Union's single market, and by neoliberally-tinged advice from the International Monetary Fund.¹⁵

¹¹ Statista (2019) Global market share of the leading beer companies in 2016 based on sales. New York: Statista, Inc. <https://www.statista.com/statistics/257677/global-market-share-of-the-leading-beer-companies-based-on-sales/> (accessed 4 May, 2019)

¹² Evans, S. (2018) Treasury Wine bruised by US route-to-market overhaul. *Financial Review*, August 18. <https://www.afr.com/business/retail/fmcg/treasury-wine-bruised-by-us-routetomarket-overhaul-20180815-h140ra> (accessed 7 April, 2019)

¹³ Austin, G.A. (1978) *Perspectives on the History of Psychoactive Substance Use*, pp. 11, 14. NIDA Research Issues 24, DHEW Publication No. (ADM) 79-810. Washington: USGPO, 1978.

¹⁴ Mackay, J. & Erikson, M. (2002) *The Tobacco Atlas*. Geneva: World Health Organization

¹⁵ Gilmore, A.B., Fooks, G. & McKee, M. (2011). A review of the impacts of tobacco industry privatisation: implications for policy. *Global Public Health* 6(6): 621-642.

With a few exceptions (e.g., ¹⁶), the public health-oriented literature on tobacco has been hostile to state tobacco monopolies, since they were seen as instrumentalities facilitating the use of a harmful product. However, a review of the effects of privatizing government tobacco monopolies found “very different behaviour of state and privately owned companies.... TTCs [transnational tobacco companies] advertise extensively where SOTMs [state-owned tobacco monopolies] did not. TTCs target marketing to create demand amongst groups with low levels of smoking previously ignored by SOTMs. TTCs circumvent existing legislation and work assiduously to overturn unfavourable legislation and create new favourable legislation in ways that SOTMs did not. Thus, in shifting ownership to the private sector, privatisation augments both the capacity and motivation of the supplier to increase production and marketing and dilute the impact of regulation.” (see reference 15)

Besides these negative virtues – in terms of the public health interest -- of less marketing and less political lobbying, in recent decades some government tobacco monopolies took on public health agendas. For instance, before it was privatized prior to Sweden’s entry into the European Union, Sweden’s government tobacco monopoly developed and marketed *snus*, a “sucking tobacco” product with the nitrosamines removed, as a much less harmful alternative to cigarettes. Its use in Norway and Sweden has been shown to have reduced tobacco smoking in both Norway and Sweden.^{17, 18} The Swedish study found that “snus has contributed to decreasing initiation of smoking rather than serving as a gateway to smoking. Smokers who have taken up snus use have quit smoking to a significantly greater extent than smokers without snus use, and a substantial proportion has eventually quit snus use as well and become tobacco-free.... Snus has been a major factor behind Sweden’s record-low prevalence of smoking and its position as the country with Europe’s lowest level of tobacco-related mortality among men” (reference 17). But public health advocates against tobacco have remained highly skeptical, and have succeeded in keeping snus banned from sale in Australia and in countries of the European Union other than Sweden.

Opium

In the 19th and early 20th centuries, as the European and Japanese colonial empires became consolidated in the Asia-Pacific region, a major problem for each was how to finance the machinery of empire. A substantial part of the answer for this was through revenue from the sale of opium. For the British, a primary revenue source was from monopoly wholesaling of Indian opium, particularly to end up in China, although the Chinese government resisted making this trade legal. For all the colonial powers, including the British, there was also sale to overseas Chinese in their empire’s territories, and in some places also to the indigenous population. The opium trade furnished one-seventh of the total revenue

¹⁶ Callard, C., Thompson, D. & Collishaw, N. (2005). Transforming the tobacco market: why the supply of cigarettes should be transferred from for-profit corporations to non-profit enterprises with a public health mandate. *Tobacco Control* 14(4): 278-283.

¹⁷ Lund, I. & Lund, K. (2014) How has the availability of snus influenced cigarette smoking in Norway? *International Journal of Environmental Research and Public Health* 11(11): 11705-11717.

¹⁸ Ramström, L., Borland, R. & Wikmans, T. (2016) Patterns of smoking and snus use in Sweden: implications for public health. *International Journal of Environmental Research and Public Health* 13(11): 1110. <https://www.mdpi.com/1660-4601/13/11/1110> (accessed 15 June, 2019)

of British India,^{19, p. 34} and about 25 to 30 percent of the revenue of Dutch, French and other British Asian colonial territories.^{20, p. 138} Until the US (having taken the Philippines from Spain in 1898) banned the sale of opium in 1908,²¹ every colonial power in the region, including Japan, maintained a monopoly over the sale of opium on their colonial territory, initially through a farm system, where the monopoly right was sold to private interests for a given period of time (reference 20, pp. 138-141). At the end of the 19th century and beginning of the 20th, government monopoly systems replaced the farm systems – first in French Indochina in 1883, followed by the Dutch in Java in 1894-7, and eventually in 1907-9 by Siam and the British in Malaya and the Straits Settlements. The farm system in Java had come under attack as corrupt and abusive, and replacement by a government monopoly was presented as an ethical reform: “the state could sell the opium at high fixed prices”, which “would make immoderate use impossible for most people”.²² However, “the new monopolies proved far more profitable than the old opium farms”, and profits continued to rise till 1920, when international agreements on opium restrictions began to be put into effect.^{23, pp. 97-98}

In the context of opium, then, by the early 20th century government monopolies had taken on a negative reputation from the perspective of public welfare and health. The priority for government monopolies was much more on revenue than on any welfare aim, and the monopolies were primarily imposed by imperial powers on subject peoples. In Britain, a reform advocacy group, the Society for the Suppression of the Opium Trade, founded in the mid-1870s, was “taking the lead in pushing the issue”,²⁴ with arguments for abolishing rather than reforming the trade. On the international level, the eventual result was the international drug treaty system, outlawing any nonmedical trade in opium, and eventually requiring governments to criminalise possession of opium other than for medical purposes.

¹⁹ Courtwright, D.T. (2001) *Forces of Habit: Drugs and the Making of the Modern World*. Cambridge, Mass. & London, UK: Harvard University Press.

²⁰ Trocki, C.A. (1999) *Opium, Empire and the Global Political Economy: A Study of the Asian Opium Trade 1750-1950*. London & New York: Routledge.

²¹ Le Failler, P. (2001) *Monopole et Prohibition de l’Opium en Indochine: Le Pilon des Chimères* (Monopoly and prohibition of opium in Indochina: the pillory of the fantasies), p. 56. Paris, etc. : L’Harmattan.

²² Rush, J.R. (1990) *Opium to Java: Revenue Farming and Chinese Enterprise in Colonial Indonesia, 1860-1910*, pp. 198-216. Ithaca & London: Cornell University Press.

²³ Trocki, C.A. (2000) Drugs, taxes, and Chinese capitalism in Southeast Asia. In: Brook, T. & Wakabayashi, B.T., eds., *Opium Regimes: China, Britain and Japan 1839-1952*, pp. 79-104. Berkeley, etc.: University of California Press.

²⁴ Case, S.J. (2018) Empire, reform and internationalism: Britain and the changing politics of opium, 1875-1931, p. 25. PhD dissertation. Hong Kong: Lingnam University. <https://commons.ln.edu.hk/otd/24/> (accessed 7 April, 2019)

Ironically, the international treaties do require a government monopoly at the wholesale level for any country producing opium for medical or scientific use.²⁵ The official commentary on the treaties notes that those planning the control regime concluded that the “wholesale and international trade ... cannot be entrusted to private traders, but must be undertaken by governmental authorities in the producing countries”.²⁶ The treaty thus recognizes the utility of a government monopoly for strict control of the market.

Alcohol

Since alcoholic beverages can be produced from a wide variety of agricultural products, monopolising their production was not easily enforced by the premodern state. Sweden, for instance, implemented a crown distillation monopoly in 1776, but abandoned such a centralised system in 1787.²⁷ Production monopolies such as this were primarily aimed at revenue generation, but were considerably undercut by illegal production. Controls were generally easier to impose at the retail level, primarily through licensing measures. Before the 19th century, control of the alcohol market was often local, rather than national. Such local control would often result in private monopolies at the local level (reference 27).

In Europe and in European settler societies, the spread of distillation lowered the cost of alcohol and made it more readily available, resulting in substantial increases in alcohol consumption and in problems from drinking. In the latter half of the 19th century, along with the emergence of strong temperance movements in Anglophone societies and northern Europe, there were various initiatives to control the supply of alcohol. Among these were the “Gothenburg system”, spreading from Sweden after 1865, creating a local retail monopoly with a charter which included as goals

- to reduce the number of public houses;
- to make public houses eating houses where warm, cooked food was available at moderate prices;
- to refuse sale of spirits on credit or pledge;
- to secure strict supervision of all public houses by inspectors of their own, in addition to the police; and
- to pay to the town treasury all the net profits of sales of spirits.^{28, pp. 35-39}

²⁵ United Nations (2013) *The International Drug Control Conventions*, p. 44. New York: UN Office of Drugs and Crime.

http://www.unodc.org/documents/commissions/CND/Int_Drug_Control_Conventions/Ebook/The_International_Drug_Control_Conventions_E.pdf (accessed 15 June, 2019)

²⁶ United Nations (1973) *Commentary on the Single Convention on Narcotic Drugs, 1961*, p. 278. New York: United Nations.

²⁷ Österberg, E. (1985). From home distillation to the state alcohol monopoly. *Contemporary Drug Problems* 12: 31-51.

²⁸ Brady, M. (2017) *Teaching ‘Proper’ Drinking? Clubs and Pubs in Indigenous Australia*. Research monograph no. 39, Centre for Aboriginal Economic Policy Research. Canberra: Australian National University Press.

Although no longer with a distinctive label, such local monopoly arrangements still exist today, for instance in Australia (reference 28), New Zealand²⁹ and Minnesota.³⁰

In the late 19th century, state alcohol monopolies at the wholesale level emerged, often with the aim of organizing and smoothing the market for an alcoholic beverage type,³¹ but sometimes also with public health or welfare aims.³² More comprehensive retail and wholesale monopolies also emerged, often with revenue generation as a primary aim. Thus one-third of the Russian government's budget for 1908 was derived from the government liquor monopoly.³³ There were also other governmental motivations at stake in some systems: the French colonial spirits monopoly in Vietnam did not produce much revenue, but served as an instrument of surveillance and control of the colonial population.³⁴

As temperance movements moved towards pushing for prohibition in the latter half of the 19th century, the idea of government monopolization became a major alternative proposal for controlling the harms from alcohol. Versions of the Gothenburg system were proposed as an alternative to prohibition. In the U.S., for instance, the upper-class "Committee of 50 for the Investigation of the Liquor Problem" proposed removing the profit motive from alcohol distribution by making it the task of government monopolies modeled on the "Norwegian or Company system" – as the Committee referred to Gothenburg systems.³⁵

A major breakthrough for public health-oriented monopolies came with the end of periods of prohibition in the 1920s and early 1930s. As Canadian provinces one by one retreated from the national prohibition imposed near the end of World War I, they installed quite restrictive provincial wholesale

²⁹ Stewart, L. & Casswell, S. (1987). Public control of alcohol: Licensing trusts in New Zealand. *British Journal of Addiction* 82(6):643-647.

³⁰ Lohrke, G. (1968) A Comparison of Operations between Selected Municipal and Private Liquor Dispensaries in Minnesota. PhD dissertation. Tulsa: University of Oklahoma.

³¹ Fahrenkrug, H. (1989) The role of "das Branntweinmonopol" in the alcohol beverage industry of the Federal Republic of Germany. In: Kortteinen, T., ed., *State Alcohol Monopolies and Alcohol Prevention: Report and Working Papers of a Collaborative International Study*, pp. 57-106. Helsinki: Social Research Institute of Alcohol Studies, Report 181.

³² Cahannes, M. (1981) Swiss alcohol policy: The emergence of a compromise, *Contemporary Drug Problems* 10(1):37-53.

³³ Pechenuk, V. (1980). Temperance and revenue raising: the goals of the Russian state liquor monopoly, 1894-1914. *New Zealand Slavonic Journal* 1:35-48.

³⁴ Sasges, G. (2012). State, enterprise and the alcohol monopoly in colonial Vietnam. *Journal of Southeast Asian Studies* 43(1):133-157.

³⁵ Levine, H.G. (1983) The Committee of Fifty and the origins of alcohol control. *Journal of Drug Issues* 13(1): 95-116.

and retail monopolies (e.g., ^{36,37}). These systems often included controls and rationing at the individual level, as the Swedish Bratt system -- emerging in the same period -- also did.³⁸ The experience with these systems was reported on favourably as systems to replace prohibition were considered at Repeal of U.S. national prohibition,³⁹ and 18 US states and some counties set up monopolies of substantial portions of the market.⁴⁰ The fact that such monopolies were replacing a legal prohibition made this path much easier in political terms than if the state monopoly were replacing legal private interests; in the last half century, government monopolization of an alcohol market which was already legal does not seem to have occurred above the community level.

The majority of the alcohol monopolies set up in North America and the Nordic countries after repeal of alcohol prohibition or as an alternative to it have survived in some form until the present. However, their scope has often been narrowed, and the original strict purchasing controls have often been relaxed. A factor in their survival against the tendencies of a neoliberal era is that the state monopoly arrangement almost inevitably brings more revenue to the government for a given level of sales than licensing the market to private enterprise. To the extent governments have been aware of this, this has discouraged privatization. When private interests and neoliberal orthodoxy have succeeded in privatizing a monopoly system, it has been a recurrent and unpleasant surprise to find that the promise that the government will not lose revenue in the change, as part of the privatisation arrangements, has meant that retail prices have risen with privatization.^{41, 42}

Given the disposition of events in recent decades, studies of the public health effects of alcohol monopolies have mostly been of what happened in privatisations. These have been found to have been substantially to the detriment of public health and welfare: privatisations “commonly involve higher density of outlets, longer hours or more days of sale, ... a strong orientation to commercial aspects of

³⁶ Campbell, R. A. (2001). *Sit Down and Drink Your Beer: Regulating Vancouver's Beer Parlours, 1925-1954*. Toronto: University of Toronto Press.

³⁷ Thompson, S. & Genosko, G. (2009) *Punched Drunk: Alcohol, Surveillance and the LCBO 1926-1975*. Halifax & Winnipeg: Fernwood Publishing.

³⁸ Bruun, K., Björ, J. & Frånberg, P., eds. (1985). *Den Svenska Supen: En Historia om Brännvin, Bratt och Byråkrati* (The Swedish dram: A story of brandy, Bratt and bureaucracy). Stockholm: Prisma.

³⁹ Fosdick, R.L. & Scott, A.L. (1933) *Toward Liquor Control*. New York and London: Harper & Bros.

⁴⁰ Room, R. (1987) Alcohol monopolies in the U.S.: challenges and opportunities. *Journal of Public Health Policy* 8:509-530.

⁴¹ Fitzgerald, J.L. & Mulford, H.A. (1993) Privatization, price and cross-border liquor purchase. *Journal of Studies on Alcohol* 54(4):462-464.

⁴² Her, M., Giesbrecht, N., Room, R. & Rehm, J. (1998) Implications of privatizing/deregulating alcohol retail sales: projections of alcohol consumption in Ontario. *Journal of Substance Abuse* 10(4):355-373.

alcohol sales and the introduction of new vested economic interests into alcohol management arrangements”,⁴³ accompanied by substantial increases in levels of alcohol consumption.⁴⁴

As political pressures to privatise government alcohol monopolies increased in recent decades, management and the employee unions of the monopolies have often reached out for alliances with public health interests in maintaining the monopoly. For instance, the Swedish retail monopoly, Systembolaget, presents itself to the Swedish public as acting in the interests of public health.⁴⁵ However, support for the monopoly option from the public health field has generally not been strong. In the US, for instance, until at least the 1970s public health interests tended to shy away from any type of alcohol market control as reminiscent of prohibition,⁴⁶ and there was a tendency to downplay alcohol’s harms to health in epidemiological texts.⁴⁷ To my knowledge, there has been no public health call for new monopolisations of alcohol, although a US federal agency has published a systematic review finding public health advantages in monopoly systems (reference 44). However, as recreational cannabis markets are legalized in Canada, several provinces are following the alcohol precedent by setting up monopoly schemes.⁴⁸ Legalisation of cannabis in Uruguay also involves a monopolistic element.⁴⁹

SOME GENERALISATIONS ABOUT GOVERNMENT MONOPOLIES OF PSYCHOACTIVE SUBSTANCES

A productive source of revenue

⁴³ Her, M., Giesbrecht, N., Room, R. & Rehm, J. (1999). Privatizing alcohol sales and alcohol consumption: evidence and implications. *Addiction* 94(8): 1125-1139.

⁴⁴ Hahn, R.A., Middleton, J.C., Elder, R., Brewer, R., Fielding, J., Naimi, T.S., Toomey, T.L., Chattopadhyay, S., Lawrence, B., Campbell, C.A. and Community Preventive Services Task Force (2012) Effects of alcohol retail privatization on excessive alcohol consumption and related harms: a community guide systematic review. *American Journal of Preventive Medicine* 42(4): 418-427.

⁴⁵ Ekström, K.M. & Hansson, L. (2011) Establishing a healthy drinking culture: Systembolaget – alcohol monopoly and public health in Sweden. In: Cheng, H., Kotler, P. & Lee, N.R., eds. *Social Marketing for Public Health*, pp. 171-198. Boston, etc.: Jones and Bartlett.

⁴⁶ Room, R. (1984) Alcohol control and public health. *Annual Review of Public Health* 5:293-317.

⁴⁷ Herd, D. (1992). Ideology, history and changing models of liver cirrhosis epidemiology. *British Journal of Addiction* 87(8): 1113-1126.

⁴⁸ Crépault, J.-F. (2018) Cannabis legalization in Canada: reflections on public health and the governance of legal psychoactive substances. *Frontiers in Public Health* 6:220.
<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6089329/> (accessed 7 April, 2019)

⁴⁹ Walsh, J. & Ramsay, G. (2016) Uruguay’s drug policy: major innovations, major challenges. Washington: Brookings Centre for 21st Century Security and Intelligence.
<https://www.brookings.edu/wp-content/uploads/2016/07/Walsh-Uruguay-final.pdf> (accessed 7 April, 2019)

Where the supply of an attractive psychoactive substance can be controlled, it is a potentially potent source of revenue. This was a particularly crucial consideration for governments in the premodern world, before such revenue sources as income tax were generally available. A government monopoly of the wholesale/import and retail levels will usually yield more revenue for a given level of consumption than a tax on licensed private markets, because of efficiencies in distribution and sale, and the absence of private profit.

As noted above, a government's revenue interests and public health interests are not necessarily in conflict, in that a higher tax or profit will tend to hold down consumption. But from the perspective of a government finance or treasury department, ambitions for revenue from sale of the substance will extend well beyond what can be gained in this way, and may result in efforts to stimulate the market. This means that how the purposes of the monopoly are defined, how it is organized, and where it is located in the structure of government, are of crucial importance in how it operates in the long run.⁵⁰ Location in the finance or treasury department will tend to mean that revenue considerations take priority over public health and welfare interests.

The history of opiate monopolies, in particular, points to another dimension to take into account concerning government monopolies: is there a disjunction between the interests of the government which controls the monopoly and the monopoly's customers? The imperial opium monopolies in Asia in the 19th century were profiting from customers who were not their constituents. This particular disjunction ended with the end of the empires. But on a smaller scale, the same phenomenon can be found with some monopolies today. For instance, the US state of New Hampshire sites liquor stores near the Massachusetts border, a much more populous state, to hold down state taxes by profiting from sales to Massachusetts customers.⁵¹

Limiting social and health harm

A sales monopoly, particularly at the retail level, is an effective way of limiting social and health harm. It will be most effective in this where such public health and welfare aims are a primary consideration for the monopoly. But, as suggested by the findings of Gilmore and colleagues (reference 15) concerning tobacco monopolies, even a retail monopoly where public health is at best a secondary consideration tends to operate with less risk of harm than private market actors. Retail alcohol monopolies generally have fewer outlets and shorter hours than in a private for-profit market, and are less likely to offer discounts and sale prices for the products. Usually the employees are civil servants with a regular career path, and more likely than the casual workers often employed in private stores to adhere to policies to limit harm, such as rules against sales to underaged or drunken customers.

Whether at the level of production, of wholesaling or import, or of retail, monopolisation replaces private market actors which have a vested interest in expanding the market and increasing sales. In

⁵⁰ Caulkins, J.P. & Kilmer, B. (2016) The US as an example of how not to legalize marijuana? *Addiction* 111(12):2095-2096.

⁵¹ Bookman, T. (2018) Why are New Hampshire's tax-free liquor stores selling so much Hennessy? The Salt, National Public Radio, 8 March.
<https://www.npr.org/sections/thesalt/2018/03/08/591568943/hennessy-hauls-raise-concerns-about-new-hampshire-s-tax-free-liquor-business> (accessed 7 April, 2019)

particular, producers and sellers have an interest in expanding sales to heavier consumers, since for any psychoactive substance more than half of the total consumption of the substance will be accounted for by less than 10% of those who consume it at all.^{52, 53} Advertising and other promotion of consumption to expand the market is much more easily and effectively minimized with a monopoly than with private market actors. Private interests are also much more likely to lobby actively to expand the market by weakening restrictive regulations or their enforcement; their efforts act as a “ratchet mechanism” to increase, step by step, the market availability of the substance.⁵⁴

Arguments and interests against government monopolies

Private interests which are replaced or affected by a monopoly are the most obvious opponents of government monopolies. In the current era, these interests are expressed not only in the politics of a particular society, but also internationally. Private agricultural and industrial interests which are strong in a particular country routinely persuade their government to act on their behalf in international commerce, for instance in trade agreements and disputes. Government monopolies are frequently seen as impediments to free trade – an indeed such monopolies have often favoured locally-produced over good coming across a border. A long and unresolved series of disputes between Canada and the U.S., for instance, revolves around actions by state or provincial alcohol monopolies which favour local over imported products.⁵⁵ When Sweden and Finland decided to join the European Union, it was considered likely that, on the initiative particularly of the wine-producing countries of southern Europe, the alcohol monopolies would be declared incompatible with the EU’s single market.⁵⁶ In the event, the monopolies at the retail level were maintained, but the alcohol monopoly system in each country was considerably weakened.

However, opposition to government monopolies has often extended much more broadly than to competing private interests, and can be traced to three other main lines of thinking and argument. One

⁵² Burns, R.M., Caulkins, J.P., Everingham, S.S. & Kilmer, B. (2013) Statistics on cannabis users skew perceptions of cannabis use. *Frontiers in Psychiatry* 4:138.
<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3818642/> (accessed 7 April, 2019)

⁵³ Room, R. & Livingston, M. (2017) The distribution of customary behavior in a population: The Total Consumption Model and alcohol policy, *Sociological Perspectives* 60(1):10-22.

⁵⁴ Room, R. (1991) Cultural changes in drinking and trends in alcohol problems indicators: recent U.S. experience. In: Clark, W.B. & Hilton, M.E., eds., *Alcohol in America: Drinking Practices and Problems*, pp. 149-162. Albany: State University of New York Press.

⁵⁵ Room, R., Giesbrecht, N. and Stoduto, G. (2006) Trade agreements and disputes. In: Giesbrecht, N., Demers, A., Ogborne, A., Room, R., Stoduto, G. and Lindquist, E., eds., *Sober Reflections: Commerce, Public Health, and the Evolution of Alcohol Policy in Canada, 1980-2000*, pp. 74-96. Montreal & Kingston: McGill-Queen's University Press.

⁵⁶ Holder, H. D., Giesbrecht, N., Horverak, Ø., Nordlund, S., Norström, T., Olsson, O., Österberg, E. & Skog, O.-J. (1995). Potential consequences from possible changes to Nordic retail alcohol monopolies resulting from European Union membership. *Addiction* 90(12): 1603-1618.

obvious source is ideological opposition to government rather than private operation of a market, and disfavour of a market which could be private being turned over to a government. In the ideological battle between capitalism and socialism which occupied much of the 20th century, the “small state” argument that anything which could be done by non-state actors should be done that way has often outweighed other considerations in “capitalist” societies. This argument became particularly powerful in the neoliberal era of the later 20th century – the era in which a majority of state tobacco monopolies and a number of state alcohol monopolies were privatized.

A second source of opposition is a commitment to prohibition rather than control of a substance. Historically, the battle between prohibition and “state control” as alternative solutions to the problems brought by psychoactive substance use were most clearly expressed for alcohol. In the case of nonmedical use of opium and other substances covered by the international treaties, until fairly recently the prohibition side of the argument swamped any serious discussion of an alternative. Now, particularly for cannabis, and to a certain extent also some “new psychoactive substances”, there is a new round of serious discussion of state control regimes. The North American discussion about cannabis includes the option of government monopoly regimes for cannabis (e.g., ⁵⁷). These are now being set up in parts of Canada (see reference 48), but seem to be precluded presently in the U.S. by continued prohibitory law at the federal level.

A third source of opposition is moral opposition or unease about the government dirtying its hands with a problematic business. When the Iowa legislature decided in 1986 to privatize its alcohol monopoly, “those who wanted to get Iowa out of the business contended the state should not be making a profit from liquor, while it approved tougher laws on drunken driving and spent millions of dollars on treating people for substance abuse”.⁵⁸ The moral unease about the state facilitating a problematic behaviour which produces harms the state then has to address often arises in the pursuit of public health interests – as in harm reduction approaches to illicit drug use⁵⁹ – and often becomes a block to state action.

A notable feature of the alcohol monopoly history is that the early monopolies primarily motivated by public health and order concerns – for instance, the “Gothenburg schemes” and the Carlisle scheme in Britain⁶⁰ – were primarily drinking-places for on-premise consumption of alcohol. Nowadays, state monopolies of alcohol are primarily for off-premise sales of alcohol, with on-premise drinking places

⁵⁷ Caulkins, J.P., Kilmer, B., Kleiman, M.A.R., MacCoun, R.J., Midgette, G., Oglesby, P., Pacula, R.L. & Reuter, P.H. (2015) *Considering Marijuana Legalization: Insights for Vermont and Other Jurisdictions*. Research Report 864. Santa Monica: RAND Corporation.
http://www.rand.org/pubs/research_reports/RR864.html (accessed 7 April, 2019)

⁵⁸ Anonymous (1986) Iowa to withdraw from liquor sales. New York Times, December 1.
<https://www.nytimes.com/1986/12/01/us/iowa-to-withdraw-from-liquor-sales.html> (accessed 7 April, 2019)

⁵⁹ Keane, H. (2003). Critiques of harm reduction, morality and the promise of human rights. *International Journal of Drug Policy* 14(3): 227-232.

⁶⁰ Gourvish, T. R. (1997). The business of alcohol in the US and the UK: UK regulation and drinking habits, 1914-39. *Business and Economic History* 26(2): 609-616.

(including restaurants) not usually state-owned. These days, it is primarily at the community or local government level that monopolies with on-premise drinking can be found. My hypothesis is that the state being involved in actually pouring the alcohol and serving the drinks proved to be too close an involvement in the potentially problematic behavior for moral comfort. A parallel unease can be observed concerning harm reduction approaches to illicit drug use: it has proved much easier politically to argue for and implement needle exchanges than safe-injection sites, where state oversight is involved in the actual drug use act.

WHERE NOW WITH GOVERNMENT MONOPOLIES OF PSYCHOACTIVE SUBSTANCES?

The recent decades have been paradoxical times, in terms of the potential future of government monopolies of psychoactive substances. Particularly in the neoliberal era, many government monopolies have been privatized. Outside of China, tobacco monopolies are now fairly rare, and alcohol monopolies are thinner on the ground. On the other hand, there is now a fairly substantial evaluation literature on positive effects on public health and welfare of monopolizing the distribution and sale of psychoactive substances. The moves towards legalizing recreational markets in cannabis, particularly in north America, have put the issue of regulatory regimes for psychoactive substances back onto policy agendas, and what was a quite esoteric interest has taken on greater current significance. As the neoliberal era wanes, monopolizing the market in attractive but problematic commodities seems to be coming back onto political agendas.