THE EVOLUTION OF ALCOHOL MONOPOLIES
AND THEIR RELEVANCE FOR PUBLIC HEALTH

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State monopolization of all or part of the alcohol market has existed in many times
and places, and with many motivations. One potential aim is as an instrument of public
health: to reduce the level of harm related to alcohol consumption. Considering the
historical development of alcohol monopolies, it is argued here that state monopolization of
the alcohol market is a potentially effective instrument both for public health purposes and
to maximize the state's revenue from alcohol sales.

MOTIVATIONS FOR MONOPOLIZATION

In the current era, the idea of government or state-franchised monopolies has come
under sustained attack. It is an article of faith in many economic discussions that, in all
circumstances, state enterprise is inherently less efficient and responsive than private
enterprise. The collapse of the state-socialist system in Eastern Europe has contributed to
the impression that state enterprises are an impracticable relic of outmoded ideas. In
accordance with this ideology, many state-owned enterprises have been privatized.
Whatever its other effects, this move has the added advantage for the government of the
moment of a quick infusion of revenue from the sale of the assets.

In this ideological climate, whether the state chooses to monopolize a commodity or
service is commonly seen solely in terms of a choice between capitalism and state-
socialism. Yet state monopolies existed long before the dialogue between these two
ideologies started in the 19th century, and the choice to monopolize a commodity or service
may arise from a diversity of motivations. Forms of state-enforced monopolization of a
market, in fact, coexist readily and without attracting notice in the most capitalist of
economies.

There have been a variety of motivations historically for a government's exercise or
grant of a monopoly on the sale of a commodity or service.

* One motivation has been to maximize revenue for the government from the sale of
the commodity. If the supply is monopolized, so that there is no competition in the
marketplace, the potential revenue is limited only by the limits of demand. Of course,
some commodities are easier to monopolize than others. From a revenue viewpoint, the
ideal commodity is one from which there is a relatively inelastic demand but which cannot
be easily produced locally. Salt and matches are examples of commodities which have met

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these criteria in one place or another. Psychoactive substances in everyday use -- alcohol, tobacco, coffee -- have also been a very frequent choice. The consideration of ease of local production means that a wine monopoly will be more effective in Iceland than in Italy. The prototype in modern history for this kind of monopoly was the strong and profitable tobacco monopoly instituted by Venice in 1659 (Austin 1978:11, 14).

In the French and other anciens régimes, monopolies on particular taxes ("tax farms") were often sold or granted to private enterprises, diverting some or all of the income to cliques of government supporters.

* Governments customarily grant monopolies, in the form of patents, copyrights and trademarks, to encourage innovation or creative endeavour, to create a stable market, and/or for consumer protection. It would be illegal for me to mix some ingredients and sell them in a bottle marked "Glenfiddich" or "Coca-Cola", for instance, and this government protection of a trademark certainly interferes with the free operation of the marketplace. A major justification for this trademark protection is that it assures consumers about the composition and quality control of the product. Protection of intellectual property as a state-enforced monopoly has over the last century increasingly become a matter not just of national but also of international law.

Monopolization of the wholesale market in a commodity is also one method by which states have attempted to stabilize the market for particular agricultural products. This was one of the motivations, for instance, for setting up the existing state wholesale monopolies of brandy or fruit spirits in Switzerland, German and France.

* Government monopolies have been instituted to eliminate private profit motives for the sale of a commodity, to provide a service which is a "natural monopoly", or to ensure a function is filled where no profit can be expected. The motivation of eliminating private profit of course found its most thoroughgoing embodiment under state socialism, which in its pure form requires that all the means of production be monopolized by the state. But eliminating the private profit motive has often been the choice for particular problematic commodities or services, where private interests might encourage overuse and thus increased rates of harm.

In the case of "natural monopolies", such as local water or electricity supply, the choice has been between a government monopoly or government franchise and control of a private monopoly, including regulation of the prices charged. Quite commonly, a government monopoly, such as the post office, will be required to give service even where such service is highly uneconomic.

* Governments have often monopolized the market in and possession of dangerous or hazardous commodities in order to limit or control their distribution. A very common example is the monopolization of instruments of war and other means of violence, such as machine guns or atomic weapons.

* Governments have also monopolized commodities or services or franchised private monopolies of them in order to promote public health or public order. For instance, lotteries and other forms of gambling are often state-run in part to discourage criminal involvement in gambling operations. The channelling of the demand for prescription drugs through doctors and pharmacists can be regarded as a form of franchised oligopoly, motivated in considerable part by public health concerns. In the last 140 years, this motivation was a strong element in the decisions to set up government alcohol monopolies.

The motivations for establishing a government monopoly are frequently mixed. For
instance, the establishment of the spirits wholesale monopoly in Switzerland reflected the confluence of interests in promoting temperance, in stabilizing markets for farm products, and in securing state tax revenues on alcoholic beverages (Cahannes 1981). The perceived purposes of a monopoly may also drift with the passage of time; thus those in charge of many U.S. state alcohol monopolies in the 1970s had largely forgotten that "promoting temperance" was an important aim at their foundation (Matlins et al. 1979).

THE DEVELOPMENT OF GOVERNMENT ALCOHOL MONOPOLIES

State monopolization of one or another aspect of the supply of alcoholic beverages has a lengthy history. But before the 19th century, the primary motivation for such monopolies was the maximization of state revenue. The 19th century brought new concerns about the harm related to alcohol consumption. The first government-franchised monopoly of alcohol set up in part with the aim of reducing the harm from alcohol consumption was in the Swedish town of Falun in 1850. The idea of the "Gothenburg system", named after the larger Swedish town which was an early adopter of the innovation, spread widely through the English-speaking world and Scandinavia in the years before the First World War.

The original Swedish town-monopolies were focused on on-premises consumption, aiming to provide drinking places for workers which minimized social disruptions related to drinking while contributing substantially to town revenues (Frånberg 1985, 1987). There was a strong element of social-class concerns in the justification for the Falun monopoly:

The emphasis on eliminating the disorder and violence seen as associated with working-class public drinking establishments was also a strong motivation for later municipal alcohol monopoly schemes. Municipally-run drinking establishments were set up in many places in what was then the British Empire, for instance in Renmark and two other South Australian towns (Young and Secker 1984). Perhaps the latest blooming of this impulse was the setting up of community "licensing trusts" in the 1940s to run the local public houses in areas of New Zealand (Stewart and Casswell 1987). A variation, during the First World War in Britain, was the national government's takeover of public houses in shipyard towns, with the specific aim of increasing the productivity of shipyard workers (Shadwell 1923). The most extensive network of municipally-run public drinking places resulted from the diffusion of the "Durban system" all over southern Africa in the years after its inception in 1908 (Wolcott 1974, Swanson 1976, Rogerson 1986, Ambler 1989, Molamu 1989). This system of municipal brewing and sale of opaque beer to black workers served both as a means of social control of a newly urbanized workforce and as an important source of municipal revenue.

Early municipal monopolies in North America, on the other hand, were concerned with off-premises sales, often being established where on-premises sales were already
prohibited. The first "dispensary system", as these monopolies became known, was set up in Athens, Georgia in 1891, and in the succeeding years the system spread to many places in the American South ("Athens", "Georgia", "Gothenburg System" and "South Carolina" in Cherrington 1925-30, Sellers 1943:86-100, Whitener 1945:116-132). As in southern Africa, racial as well as class divisions formed a backdrop for these early systems (Herd 1983). The South Carolina dispensary system, initiated in 1893 (Eubank 1971), was the first retail monopoly operating on a wider basis than a municipality. These dispensary systems in the American South were all eventually swept away by waves of state and then national prohibitionism.

Until the turn of the century, most government monopolies on alcohol sales operated at the municipal level. The main exception, besides the South Carolina system, was the Swiss spirits wholesale monopoly, set up at the federal level in 1885 (Cahannes 1981). After the turn of the century, the emphasis shifted to national, state or provincial operation, and to the wholesale level, sometimes, as in the French and German brandy monopolies and the Polish vodka monopoly, to the exclusion of the retail level. During the First World War, the British cabinet came within one vote of taking over the alcohol industries on a nationwide basis (Turner 1980). By the late 1920s, national production or wholesaling monopolies for alcoholic beverages had become widely distributed as a part of the apparatus of a modern state (see "Costa Rica" and "Turkey" in Cherrington, 1925-30).

In the late 19th and early 20th centuries, the framework of political discussion of "the liquor question", as it was known, was primarily set by the temperance movement's agitation for total prohibition. In this context, the idea of government monopolization of the alcohol trade was put forward as an alternative policy, initially often by academic or professional groups like the U.S. Committee of Fifty to Investigate the Liquor Problem (Levine 1983) or Bratt and his fellow-doctors in Sweden (Frånberg 1987). The aim was to reduce the harm from alcohol not by totally cutting off the legal supply, but rather by offering a limited legal supply in controlled circumstances which would minimize the harm. Temperance organizations were often deeply opposed to monopoly proposals, which were seen as a technocratic and tepid response to more thoroughgoing proposals for prohibition. Prohibitionists were well aware how dependent governments could become on alcohol revenues, and detested the respectability potentially conferred on the trade by the state's involvement.²

In the course and aftermath of the First World War, alcohol prohibition became a reality in the United States, in the provinces of Canada, in Russia and in much of Scandinavia. The adoption of the Bratt system in Sweden, gradually shifting the alcohol monopoly to the central government, forestalled the adoption of prohibition there (Frånberg 1987), but where prohibition was adopted it rendered moot for the moment the question of

²The latter concern reemerged in recent years in the debate over the dismantling of Iowa's retail sales monopoly: as an Iowa legislator put it, "it strikes me as hypocritical to have Iowa all uptight about drunk drivers and also sell the stuff" (Glover, 1982). The arguments in the debate between prohibitionists and the proponents of "disinterested management" of the alcohol supply by the state resemble those in the current debate on opiates and other illicit drugs between proponents of prohibitionary and harm-reduction policies.
who should own alcohol production or distribution.

In some places, the victory of the prohibition forces proved to be brief. Norway and Iceland were shortly pressured by wine-growing trading partners to reinstate legal sales ("Iceland" and "Norway" in Cherrington 1925-30). Prohibition in Québec, adopted in 1919 for spirits only, was repealed in 1921. Setting up a legal market again after a period of prohibition (and thus without legitimate vested interests in place), legislators in Québec and elsewhere turned to the main alternative proposal for "promoting temperance", government wholesale and retail monopolies. As other Canadian provinces repealed prohibition between 1921 and 1930, each adopted a version of the Québec monopoly system.

The Canadian precedent was followed in turn after the repeal of U.S. national Prohibition. In 1933-1935, 15 U.S. states set up wholesale monopolies, and in most cases also retail off-sale monopolies; they were eventually joined by three other states as they repealed state-level prohibition. In the U.S. policy discussions, a major influence was a study financed by John D. Rockefeller, Jr. (Fosdick and Scott 1933) which favored a monopoly system over a system of licensing private enterprise. As Rockefeller himself explained in a foreword, "only as the profit motive is eliminated is there any hope of controlling the liquor traffic in the interest of a decent society. To approach the problem from any other angle is only to tinker with it and to insure failure. This point cannot be too heavily stressed" (Levine, 1985).

By 1940, most present-day government alcohol monopolies in developed societies had been set up. The main aims of such monopolies were usually threefold: to secure government revenue, to eliminate organized crime in alcohol distribution (a particularly important aim in the aftermath of prohibition), and to structure purchasing and consumption so as to minimize harmful drinking. In the following decades, monopolization of the alcohol market increased in eastern Europe, China, Indochina, and some other developing societies as part of the spread of state socialism. In most cases, these monopolies were introduced without alcohol-specific public health motivation. Nevertheless, as Moskalewicz reminds us in his paper for this meeting, the present-day dissolution of the alcohol monopolies in eastern Europe can have a strong adverse impact on public health.

INCLUSIONS AND EXCLUSIONS IN CURRENT NORTH AMERICAN AND NORDIC MONOPOLIES

At the present time, the most widespread form of monopolization is of the wholesale trade in spirits at a provincial, state or national level. Where public health and order concerns have been strong, the system also usually includes monopolization of off-sales of spirits at the retail level. Wine is also included in a majority of the systems in North American and the Nordic countries, although there has been some trend towards wine being removed in whole or part from North American systems (see Holder’s paper for

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3There are also some retail monopolies in other U.S. states at county and municipal levels -- see Room 1987, Holder and Janes 1989.

4Levine (1985) notes that "the irony of a Rockefeller speaking about the dangers of the profit motive was not lost on observers at the time".
this meeting). The systems vary greatly in their handling of beer. As Ólafsdóttir's paper reminds us, strong beer has been at least as strongly controlled as other alcoholic beverages in Nordic systems, while on the other hand no U.S. state system includes a beer monopoly. Production monopolies have also been a part of Nordic systems, but not of North American systems.

In the light of the focus of the early Gothenburg systems, the remarkable feature of the modern state, provincial and national monopolies is that on-premises outlets are rarely included in the monopoly. We may speculate that there are several reasons for this:

* since the post-prohibition monopolies were mostly set up at state, provincial or national levels, there was a lessened focus on tavern-related casualties and public disorder, problems which would be of primary concern to municipal authorities.
* at Repeal, at least in the U.S., there was a tendency to blame the harm from pre-Prohibition drinking solely on the "old-time saloon". In accordance with this theory, no "liquor by the drink" was allowed at all when some systems were set up (particularly in the American South), and the impulse to exercise control through government ownership had faded if and when on-premise drinking was eventually allowed.
* the issue of the state's involvement in dirty business -- of how close a connection the state should have with the causation of alcohol-related problems -- may be involved. Selling sealed containers appears to be more detached from the eventual harm than actually pouring the drink.

Despite the general trend, government-operated drinking places are not unknown in the Nordic countries and North America. For instance, in 1985, there were 229 small cities in Minnesota operating on-sale as well as off-sale outlets, and in 1977 the U.S. military was operating 1285 "open messes" serving alcohol (Room 1987). Alaskan village and Indian tribal governments have the right to monopolize on-premises sales on their territory, and a few may be doing so.

In recent years, interest has revived in ways of reducing rates of alcohol-related problems by changes in the drinking environment, including server intervention training (Saltz 1988). Government-owned or controlled taverns are potentially a particularly receptive environment to experiment with, develop and institutionalize such approaches; one of the first server intervention experiments, in fact, was carried out in the context of a U.S. military base (Saltz 1987).

Another feature often linked with monopoly systems 40 years ago has totally disappeared from the scene. The Bratt system in Sweden was a system not only of state monopoly, but also of individualized rationing of alcohol purchases (Frånberg 1987). A rationing system does not require a government monopoly of sales, but it can probably be operated more effectively with such a monopoly. Efforts to control or monitor purchases at the individual level also existed in other monopoly systems -- for instance, the buyer surveillance system in Finland, the purchase slip system in Ontario. These systems have all been abolished; they came to be seen as an infringement on individual privacy and the sovereignty of the paying consumer. It is clear, also, that the Swedish and Finnish systems were discriminatory in their application (Frånberg 1987, Järvinen 1991). There is no doubt that reinstitution of alcohol rationing is politically unthinkable anywhere in the Nordic countries or North America today. Nevertheless, it should be noted that modern studies of effects of alcohol rationing (e.g., Schechter 1986, Norström 1987) support the conclusion that this is potentially one of the most effective ways of reducing rates of potentially harmful drinking.
THE CURRENT STATUS OF ALCOHOL MONOPOLIES IN NORTH AMERICA

In the U.S., there are recurrent threats of privatization of alcohol monopolies. Holder’s paper for this meeting discusses the total privatization of retail sales in Iowa, but a more common process has been a creeping or partial privatization, for instance through licensing “agency stores” or through privatizing wine sales. Apart from the argument that a government monopoly is un-American and inherently inefficient, the main attractions of privatization to legislators are the short-term gain to state revenues from sale of the stock and franchises, and the ability to please various interests who are or who want to be involved in the industry. Against these arguments are arrayed the interests of the employees of the state stores and their union -- and the stubborn finding, further discussed below, that the state tends to lose revenue in the long run from privatization.

Public health or public order issues play very little explicit part in these discussions. This reflects that in the years after the Second World War, the alcohol control structure in the U.S., including the state monopolies, gradually lost sight of the original aim of "promoting temperance" and redefined its goals very largely in terms of business efficiency and consumer convenience (Room 1987). It can be argued that in the long run this tendency is self-defeating for a government enterprise in a capitalist society: the strongest argument for government monopolization is that a government enterprise can have a conscience, that it serves other goals as well as increased sales figures, efficiency and customer service.

Canadian alcohol monopolies seem generally less threatened than those in the U.S., reflecting differences in national histories and ideologies. About three-quarters of adults in Ontario are opposed to spirits being sold in supermarkets or corner stores, although they are much more evenly split about privatized wine and beer sales. The continuing relatively high level of popular concern about making alcohol too available is indicated by the opposition of 70% to allowing credit cards to be used in a liquor or beer store, and the relatively low rates of support for increasing the number of liquor stores (11%), beer stores (11%), or restaurants licensed to serve alcoholic beverage with meals (31%) (Ferris and Room, 1992).

Other papers at this meeting deal with a relatively new threat to alcohol monopolies, from international free trade or common market agreements. These agreements tend to have little or no provision for public health considerations, and treat government monopolies as impediments to free trade. Under such agreements, the U.S. government, spurred on by tobacco interests, has broken government tobacco monopolies in Taiwan and Japan. As other papers note, there is serious question whether Nordic alcohol monopolies will be allowed to survive unchanged if their countries enter the European Common Market. Spurred on by brewers, Canada and the U.S. have countersued each other under the General Agreement of Tariffs and Trade (GATT) to force the opening of each others' beer markets. These suits primarily affect alcohol control structures at provincial and state rather than at national levels. Already, the U.S. suit has forced a substantial opening up of the Canadian beer market, while the countries are currently engaged in a tariff war over the U.S. dissatisfaction with the Ontario’s actions in settlement of the suit.

It is clear that under GATT and other trade agreements market arrangements cannot favor locally produced beverages over imported beverages of the same type. Thus, for instance, allowing Ontario winemakers but not winemakers from elsewhere to sell wine to
the public in their own stores has a protectionist effect, and cannot easily be justified on public health grounds. Given the vested interests at stake, however, there is a substantial risk that these inequities will be undone by opening up new marketing opportunities rather than by taking away existing ones, where it could be argued that the best result from a public health perspective would be to restrict wine produced locally to the same market conditions as imported wine.

THE PERFORMANCE OF ALCOHOL MONOPOLIES: THE CONFLUENCE OF REVENUE AND PUBLIC HEALTH INTERESTS

From the point of view of government revenue, alcohol monopolies in countries like Canada are efficient and profitable. Comparing spirits sales in monopoly and non-monopoly (license) states in the U.S., monopoly states consistently get more revenue from the sales than license states (Room 1987). Liquor store clerks in monopoly states earn a better wage than the minimum wages often paid to clerks in license states. Yet the price to the consumer is consistently slightly less in monopoly states than in license states. Conventional economic thought, ideologically attuned to the idea that many sellers will create a more efficient market than a single seller, finds this result paradoxical. Yet the result appears repeatedly: one of the main impediments to privatizing alcohol monopolies in the U.S. has been that realistic projections consistently find that the government will lose revenue with privatization.

Part of the answer to the apparent paradox may lie in extra profits taken by private retailers, and in the ability of provinces or states to bargain from strength as wholesalers with the producers. But a major part of the answer is that a license system tends to have many sales outlets open for long hours, and that the overhead cost of this easy availability adds to the sale price. Furthermore, the licensing system creates a substantial vested interest in maintaining and increasing availability and sales levels, and this interest organizes in a politically effective way to limit the government's alcohol tax levels. Thus Holder mentions in his paper for this meeting that, despite the expectations in Iowa that state revenue would not decline with privatization, in the aftermath "the state markup for liquor was reduced to permit a greater profit margin for retail outlets".

A monopoly sales system with relatively few stores and shorter opening hours certainly imposes extra costs on consumers, whether because of travel or inconvenience. If the commodity in question is bread or children's clothes, this is a strong argument against such a system. But alcohol is not bread or children's clothes. Rather, it is a commodity associated with large health, welfare and public order costs. There is a strong public health argument that consumers should not have alcohol pushed on them, and in fact that the availability of alcohol should be constrained. This public health interest argues that the consumer's convenience should not be paramount in distributing alcohol. In the light of the public health interest, a well-run government alcohol monopoly becomes a means not only of maximizing government revenues from alcohol, but also of maximizing the society's protection from alcohol-related damage.

ALCOHOL MONOPOLIES AS INSTRUMENTS OF PUBLIC HEALTH

From the point of view of state revenue, it is the wholesale level which it is crucial to monopolize. This is underlined by the struggles of the Minnesota city retail monopolies to break even, in the situation where they are supplied by private wholesalers (Carlson 1986). But from the point of view of public health and order interests, the wholesale level
is almost irrelevant: it is the retail level which is crucial. It should be noted that a government retail monopoly can serve a number of social justice interests besides its contribution to public health and order. For instance, in the interests of equity monopolies often choose to charge the same price for the same goods in all locations, whereas prices would be higher in more remote stores and lower in metropolitan areas in a competitive market.

In terms of public health interests, a retail off-sales monopoly can limit the availability of alcoholic beverages and to some extent structure the patterns of purchase of them. It can therefore make a contribution to reducing drinking-related harm.

* The siting, number and hours of sale of sales outlets, and conditions of sale, can be set to balance public health and order interests against considerations of convenience. Holder’s paper discusses this aspect in greater detail.

* The private profit motive is eliminated from the sales transaction. A century ago, this motive was mostly conceptualized in terms of marginal tavernkeepers pressing drinks on their regular customers. Nowadays, we would see profit-oriented pressures to increase sales as operating also in two less personal ways: through advertising and other promotions of alcohol sales, and through the ratchet-mechanism by which existing vested private interests resist any winding down from the existing conditions of sale and push for further opening up of availability in the market.

* Some research studies are more readily carried out in the context of a provincial, state or national monopoly. Such agencies tend to collect better and more fine-grained data on sales patterns than licensing systems -- data which is useful in epidemiological and policy analyses. A monopoly can also more easily cooperate with research and demonstration projects to try out new methods of preventing alcohol problems.

* Server training and intervention against selling to the already intoxicated or the underaged can be more effectively implemented in a monopoly system with a relatively well-paid and stable workforce.

* A government store system provides a serviceable and hospitable base for public health-oriented educational programs and health promotion campaigns.

REFERENCES


