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Gov. Wolf's economic incompetence & financial idiocy

ANTONY DAVIES & JAMES R. HARRIGAN | Saturday, July 18, 2015, 9:00 p.m.

It's difficult to decide whether Gov. Tom Wolf is incompetent or duplicitous. The reasons he gave for vetoing a long overdue plan to privatize Pennsylvania's state-run liquor system do not pass the smell test. Any introductory-level economics student would know as much.

The governor asserts fantastically that ending the state monopoly on liquor sales would harm consumers by causing higher prices and decreased selection. He never explains how this might happen, though, because he can't. When a monopoly ends — and the state most certainly holds a monopoly in liquor sales — entrepreneurs rush into the market to satisfy demand. What results? Lower prices or better service or more convenience or increased selection or a combination of all four. Every time. Look no further than Google Fiber vs. the Comcast monopoly, or Uber vs. the taxi cartel. When competition does lead to higher prices, it's because the protected monopoly's product is so bad that customers are happy to pay more to be rid of it. FedEx vs. the postal service and private vs. public schools come to mind immediately. Look anywhere that a protected monopoly has lost its protection and you will see entrepreneurs bending over backward to please customers. Has the DMV ever been described that way? Has any government-run entity?

In his veto announcement the governor wrote, “In … another state that pursued the outright privatization of liquor sales, consumers saw higher prices and less selection.” Notice that the governor didn't mention which state. It's Washington. When Washington privatized, it simultaneously slapped a massive tax hike on liquor, making its tax the highest in the nation. Yes, Governor, Washington's prices did rise with privatization — not because of privatization but because of the government's tax.

Wolf's display of economic incompetence is rivaled only by his display of financial idiocy. He also claims that “It makes bad business sense for the commonwealth and consumers to sell off an asset, especially before maximizing its value.”

Incorrect again. If the sale price exceeds the current value of expected future profits, it makes perfect sense to sell off the asset. According to its financial statements, over the past six years the Pennsylvania Liquor Control Board has contributed an average of $95 million annually to the state's general fund. The authors of the House bill for privatization estimate that selling the state store system would generate $1.2 billion in the first year, then $30 million each year thereafter. At a 5.5 percent rate of return (the average return on triple-A corporate bonds over the past 15 years), selling the state stores would generate the same $95 million annual income that the state store system generates now. And it would do so without taxpayers having to bear the risk and expense of running one of the country's largest liquor store chains.

There are excellent arguments for privatization and even a couple of good ones for maintaining the state-monopoly, none of which the governor addressed. Tom Wolf leaves us to assume that he is either an economic and financial incompetent or another prevaricating politician. But we repeat ourselves.

Antony Davies is associate professor of economics at Duquesne University. James R. Harrigan is director of academic programs at Strata in Logan, Utah.