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The great Pennsylvania liquor swindle

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Pennsylvania state stores mark up every bottle of wine and liquor sold within the state by 30 percent. But that apparently is just not enough for August Hehemann, the state Liquor Control Board's finance director. In an internal memo obtained by the media, Hehemann calls for an increase in the markup, to 35 percent.

In defending itself against calls for privatization, the LCB has claimed that it “returned” more than $500 million to the state last year. Why would a business that can afford to return a half-billion dollars to the state need to increase its markup? The answer is that the LCB isn't nearly as lucrative as it claims. Not by a long shot.

In the last fiscal year, the LCB sold $1.7 billion worth of wine and liquor, which it bought for $1.2 billion. The difference is $500 million. If state store workers worked for free, and if they sold bottles at the side of the road instead of in stores that have to be built, maintained, air conditioned and lit, and the state didn't charge any taxes on wine or liquor, then the claim that the LCB “returned” $500 million to the state would be correct.

But the LCB spent around $415 million on wages, overhead, taxes and various other things, leaving a profit of only $80 million. That's what the LCB contributed to the state — $80 million, not $500 million.

So what do Pennsylvania taxpayers get for all of this state involvement in something that could just as easily be sold in grocery stores? Risk. And plenty of it. Believe it or not, the LCB was bankrupt from 2010 through 2012. Think about that for a minute. With a guaranteed 30 percent markup on every bottle of wine and liquor sold, the LCB still found a way to lose money.

In 2010, LCB liabilities exceeded its assets by more than $8 million. In 2011, the difference ballooned to $71 million, then dropped to (only) $10 million in 2012. If a grocery store were run this way, it would go out of business and a new grocery store would open — one run by much smarter people.

For three of the past five years, our state government has been forcing taxpayers to carry the LCB along until it could get back on its feet. Sound familiar? It should, because this is no different than the auto bailout or the Wall Street bailout. We know how those stories ended. The LCB story will end the same way — with the LCB becoming a permanent ward of the state until, when taxpayers finally have had enough, it is replaced by businesses that can do its job better and at lower cost.

Until then, what the LCB's customers can't, or won't, cover, the taxpayers of Pennsylvania will.

The LCB isn't too big to fail but it is apparently too politically entrenched to fail. How else can one explain the continued existence of an enterprise that could be replaced tomorrow by existing private sector businesses, that contributes a measly one-tenth of 1 percent to the state's operating budget, that 7 out of 10 Pennsylvanians want disbanded and that was bankrupt for three of the past five years?

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