Privatization: Although Appealing may not be the Solution

What Impact has Privatization had on Public Services in Alberta over the last 20 years?

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One of the key political developments in Alberta is the pressure on governments to provide more efficient public services with fewer resources. With an aging population, deteriorating urban infrastructure, expanding immigration and globalization of commerce, all levels of government are faced with greater demand for public services. At the same time, taxation seems to be a limited resource and a politically loaded means of meeting these needs. Some politicians and business leaders propose privatization of public services as a solution to this dilemma.

In very general terms, privatization is a term that has been associated with the transfer from the public to the private sector of assets in terms of ownership, management, finance or control.[1] In its narrowest sense it has been used to describe the sale of public assets to the private sector, but it has also been linked to a reduced regulatory role of government, linked to policies of liberalization and deregulation. Within the basic welfare services, privatization has been used to refer to an increase in the individual's responsibility for his or her own welfare. This arises from the State's attempt to delineate more explicitly its commitment to citizens' welfare and may also reflect citizens' own demands for alternative services.

Privatization has been linked to a range of action which includes: *asset sales,* in which government sells all or part of state-owned enterprises or property; *contracting out* services, in which public officials act as service managers; *internal market* arrangements, in which the purchasing of services is separated from their provision; *user fees*, in which government levies charges for services that are still provided by the public sector; *private-public partnerships*, in

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[1] Bach, 2000

which government finances, manages and shares the risk with the private sector on a joint project; and *liberalization*, which involves the removal of statutory provisions which prevent private sector firms entering public sector markets. The range of actions indicates that privatization is increasingly defined broadly to include all efforts to encourage private sector participation in the delivery of public services.[2]

Some government officials and business people would like to privatize public services because it has been speculated that ownership is a significant determinant of enterprise performance. In both developed and developing countries, productive and efficient *State Owned Enterprises* have been difficult to bring about – and even harder to sustain. For example, in Russia, government intervention in a group of State Owned Enterprises ended losses for years, but large deficits soon reappeared. Therefore, for the sustainability of State owned enterprises, it is imperative that resources should be administered and invested accordingly and not in a "one shot" basis – only for the enterprise to slowly succumb to market pressures. The fiscal allocation of resources in a State Owned Enterprise is critical to create a sustainable and beneficial enterprise. Governments facing financial crisis often try to improve performance by bringing in new dynamic managers, paying them incentive salaries, and granting managers the autonomy to set prices, hire and fire. Ironically, these measures mimic that of private enterprises such as creating profit motives. Therefore, public enterprises can allocate resources to increasing efficiency to quench its possible shortcomings. However, it is imperative that these measures are constantly administered. These aforementioned measures often have a positive effect, but as the crisis dissipates, so does

[2] Ullrich et al., 2001

political resolve. This allocation of resources should be constantly administered in a State Owned Enterprise for enterprise vitality.[3]

On September 2, 1993, Stephen C. West, the Province of Alberta's Municipal Affairs Minister responsible for the Alberta Liquor Control Board (ALCB), announced that the ALCB's role as a liquor retailer would be phased out, and that private sector-owned and operated liquor stores would replace government-owned ALCB stores. According to West, "The private sector has demonstrated that they are a highly responsible and competent retailer of liquor products"[4] as the "sale volume in the ALCB network has steadily decreased."[5] Thus it can be concluded that the ALCB network of liquor distribution was unsuccessful and as a result the government decided to transition from a State Owned Enterprise to private businesses. All ALCB stores were closed between September 4, 1993 and March 5, 1994. Alberta thus became the first province in Canada with a completely privatized retail liquor distribution system.[6]

The ALCB was created in 1924 with the passage of the Liquor Control Act. Wholesale and retail sales of liquor products in Alberta were handled by the private sector between 1905 and 1916, prior to the creation of the ALCB, and were prohibited between 1916 (with the passage of the Liquor Act) and 1924. For the better part of its history, the ALCB maintained a monopoly on the wholesale and retail sales of liquor products in Alberta. The ALCB was responsible for choosing retail liquor store locations, the products to be sold in these stores,

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3 Titiloye, O., 2010

4 Ibid.

5 Ibid.

6 West, 2003

the prices to be charged, and the hours of operation. The ALCB also prescribed conditions for the sale of liquor and the consumption of liquor sold under a license or permit, and determined the number of any kind of licensed premise in a municipality. The ALCB was empowered to inspect licensed premises and could suspend or cancel a license or permit in the event that the licensee or permittee failed to comply with the Liquor Control Act.[7] A primary role of the ALCB throughout its history has been to levy a markup on liquor products in order to generate revenue on behalf of the province. In 1993, the ALCB reemitted $454.5 million to the province.[8]

Prior to September 1993 there were 202 ALCB liquor stores serving 151 urban and rural communities across Alberta. Product selection varied from location to location and depended largely on the community being served and consumer demand. The retail price for liquor was the same for all ALCB stores on a brand and package size basis. Most stores were open six days a week and the hours of operation varied with the maximum time being 72 hours per week.[9]

While the privatization of liquor retailing was announced on September 2, 1993, this largely meant that government-owned liquor stores were to be eliminated. The private sector, in fact, was already involved in selling liquor under various formats prior to September 2, 1993. These formats included 1) retail beer stores (first introduced in 1989, there were 30 of

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[7] West, 2003

[8] Alberta Liquor Control Board. *A New Era in Liquor Administration: The Alberta Experience*. December 1994.

[9] Ibid.

them by September 1993), 2) retail wine stores (first introduced in 1985, there were 23 of them by September 1993), 3) hotel off-sales (restricted to the sale of beer until 1990), 4) agency stores (first established in 1992, there were 49 of them by September 1993), which are general merchandise stores licensed to sell liquor from an approved area within the store, and located in rural Alberta, 5) brewery-based retail outlets (only two as of September 2, 1993), 6) winery-based retail outlets (only two as of September 2, 1993), and 7) brew pubs (only two in Alberta).)[10]

All ALCB stores were closed between September 4, 1993, and March 5, 1994. To dispose of its properties, the ALCB, in cooperation with Alberta Public Works, Supply and Services, issued a call for proposals for the sale of ALCB properties and disposal of leased premises. On September 11, 1993, advertisements were placed in newspapers throughout the province explaining how to obtain both the list of ALCB properties and more information, and how proposals were to be submitted. Prospective buyers were able to obtain information on the operating costs of each ALCB store, a copy of the lease agreement (where relevant), and the total retail sales of each store (by dollars and by volume for each brand and package size, for the latest 12 month period).

The privatization of liquor retailing in Alberta has had quantifiable impacts on liquor store locations, prices, wages, and employment. In terms of liquor sore locations initially there were 205 ALCB stores and 53 beer and wine stores in Alberta in August 1993.18 By December 1, 1995, there were 115 licensed, private liquor stores in Calgary, 100 in Edmonton, and 390 in the rest of Alberta. The total number of private liquor stores by December 1,

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[10] West, 2003

1995—605—is a 134 percent increase over the combined number of ALCB stores, wine stores, and beer stores as of August 1993. The number of municipalities (or communities) containing private liquor stores is 178, which is an increase over the 155 municipalities or communities that contained ALCB stores. However, there are 18 municipalities or communities that contained ALCB stores that do not contain private liquor stores and 41 municipalities or communities that contain private liquor stores that did not contain ALCB stores.[11]

It can be argued that liquor store privatization will not necessarily result in significant changes in retail prices or government revenues if the government's objective with respect to the sale of liquor products both before and after privatization is net revenue maximization. However, some changes in retail price would be expected to the extent that privatization resulted in 1) lower retailer costs (from the expansion of retail chains or lower labour costs for example), 2) higher supplier costs (from the higher warehouse storage and handling costs and delivery costs from the warehouse, the higher marketing costs incurred by trying to sell products to the large number of private liquor stores, or a non-revenue neutral change in the government's markup), 3) more intense spatial competition due to an increasing number of stores serving the market, and 4) moving from a market in which all stores charge the same price to one in which there will be price dispersion due to imperfect information and costly consumer searching. We have already seen that the expansion of retail liquor store chains in Alberta has been quite modest, and so overall efficiencies resulting from chain formation are not expected to be large. The other sources of price change after privatization cannot so easily be discounted. To assess the impact of privatization on retail prices of liquor products, we use

[11] West, 2003

survey price data contained in a *Retail Price Survey* for Alberta Liquor Stores. The survey is carried out each month by Westridge Marketing Services.[12] In the survey dated January 15, 1996, data on 187 product prices were collected from 100 private liquor stores in Alberta. Twenty-eight stores are sampled in both Calgary and Edmonton (seven in each of four quadrants of each city), and 44 in the rest of the province. The average price in each city quadrant or community is reported for each product, along with the highest and lowest sampled price, provincial average retail price, wholesale price, and average markup on wholesale. Many of the products included in each month's price survey have been chosen at the request of specific suppliers. Still, each product category is represented in the survey, and many well known, high volume products are also included. The *Retail Price Survey* carried out by Westridge is the most comprehensive survey of liquor prices available for Alberta, and the fact that a similar price survey was conducted in January 1995 means that price comparisons over time are possible.[13] The data demonstrates that initially after privatization the cost of liquor went up, but after time the prices decreased. However, there is no correlation to suggest that the drop in price was due to the market pressures caused by privatization. The drop in prices could have been caused by other external factors such as deregulation or even cheaper liquor prices. Thus this data suggests that privatization does not necessarily lead to lower liquor prices as a result of competition as the prices of liquor did not initially decrease.

The final two economic impacts of privatization that need to be examined are the impacts on employment and wages. At the time of privatization, there were 1,394 people

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12 Westridge Marketing Services, 1996

13 Westridge Marketing Services, 1996

employed in ALCB stores in Alberta (and this represented about 950 full-time equivalents (FTEs) according to Westridge Marketing Services). In order to get a snapshot of current employment and wages in the retail liquor store industry in Alberta, Westridge Marketing Services[14] included questions regarding part-time and full-time employment and the average non-management wage on the same survey of 100 liquor stores in which product selection data were collected. For the province as a whole, the average number of full-time employees per store is 2.92, which is a number similar to that of a smaller ALCB store. The average number of part-time employees is 4.59, which would probably be similar to a medium-sized type ALCB store. Extrapolating from the survey data, there were an estimated 1,637 full-time employees and 2,535 part-time employees in private liquor stores as of February 1996, for a total employee count of 4,172. (Westridge Marketing Services estimated that there were 1,600 full-time and 2,600 part-time employees in private liquor stores as of February 1996, for a total employee count of 4,200.) Assuming two part-time employees equal one full-time equivalent employee, there were an estimated 2,904 FTEs (or 3,000 FTEs based on Westridge Marketing's estimate) employed in private liquor stores. Liquor store employment has approximately tripled since privatization, as has the number of liquor stores.[15] Therefore, if the ALCB was to invest resources into building three times as many operational facilities, then a similar phenomenon would have been noted. Therefore, even though the privatization of liquor distribution resulted in more employment this could have been emulated by the creation of more ALCB liquor distribution stores.

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[14] Westridge Marketing Services, 1996

[15] Ibid.

As it was aforementioned it was estimated that employment in liquor stores tripled, but, as part of its privatization, the ACLB released 1,866 employees (of which 1,394 worked in the stores, equivalent to about 950 FTEs, many of whom were earning near the top of the union pay scale rate of $14.39 per hour.[16] Wages fell considerably following privatization. In February 1996, the average wage paid in a liquor store was $7.19, much less than the top end of the union pay scale in 1993 of $14.39 and less than liquor store wages in Ontario or BC, which exceed $17 per hour.[17] Thus, there was probably some lost employee surplus. Along with the increase in liquor store employment had also came a reduction in liquor store non-management employee wages. For the province as a whole, the average wage paid by private liquor stores is half that paid by the ALCB to a full-time liquor store clerk at the top of the scale. The range of private liquor store wages reported was from $5.00 to $10.00 per hour.[18]

One might conclude from these figures that the expanded network of liquor stores in Alberta has been facilitated by sharp reductions in liquor store wages. Under the ALCB, the government was the residual claimant of liquor store net revenues. The government apparently was prepared to share its liquor store revenues by paying union workers higher wages than the private sector is prepared to pay its non-union workers. To summarize, full-time equivalent employment in liquor stores is estimated to have approximately tripled under privatization, but the wages of non-management liquor store employees are almost one-half of what a full-time union worker at the top of the scale could earn in an ALCB store.

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[16] West, 2003

[17] Ibid.

[18] Ibid

Therefore, as a result of privatization and the profit motive of business owners, the wages of employees was substantially decreased. The sharp decrease in wage prevents employees from supporting their families which further increases socio-economic disparity in society.

In addition to the economic impacts of privatization there are also many social impacts. As reported in the Edmonton Police Service's *Statistical Report* for the years 1991 to 1995.[19] Recorded crime has generally been decreasing in Edmonton over the period 1991 to 1995. Only traffic offenses have shown a significant increase. However, with respect to liquor offenses, there was an overall decrease from 1991 to 1992, and then increases to 1995. Two of the largest percentage increases from 1991 to 1995 have occurred in the "minor in a licensed premise"[20] and "minor obtaining liquor."[21]

In terms of its ethical implications, this data suggests that after privatization it has become easier for minors to access alcohol. With alcohol becoming ever more accessible it enables minors to become more and more dependent on alcohol. Also, a variety of negative social effects have been linked to excessive drinking, including spousal abuse, impaired driving, fatal collisions and injury accidents, worker absenteeism, and, of course, alcohol related health problems.

According to a representative of the Alberta Alcohol and Drug Abuse Commission (AADAC), "While not conclusive, a sizeable body of evidence demonstrates a positive relationship between physical availability, alcohol consumption, and alcohol-related problems.

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19 Edmonton Police Services, 1991-1995

20 Ibid.

21 Ibid.

This is particularly true in terms of licensing restrictions (i.e., legal drinking age, hours of operation) which can impact alcohol-related traffic accidents and fatalities."[22]

In conclusion, when faced with challenges in State Owned Enterprises perhaps the answer does not lie specifically in privatization. Privatization, even though it may seem like a panacea, often brings about its own social and economic challenges. Also, many of the "benefits" of privatization can be emulated by the specific and fiscal allocation of resources. Therefore, perhaps the answer to increasing the efficiency and productivity of a State Owned Enterprise lies within the fiscal allocation and management of resources.

[22] James 1994

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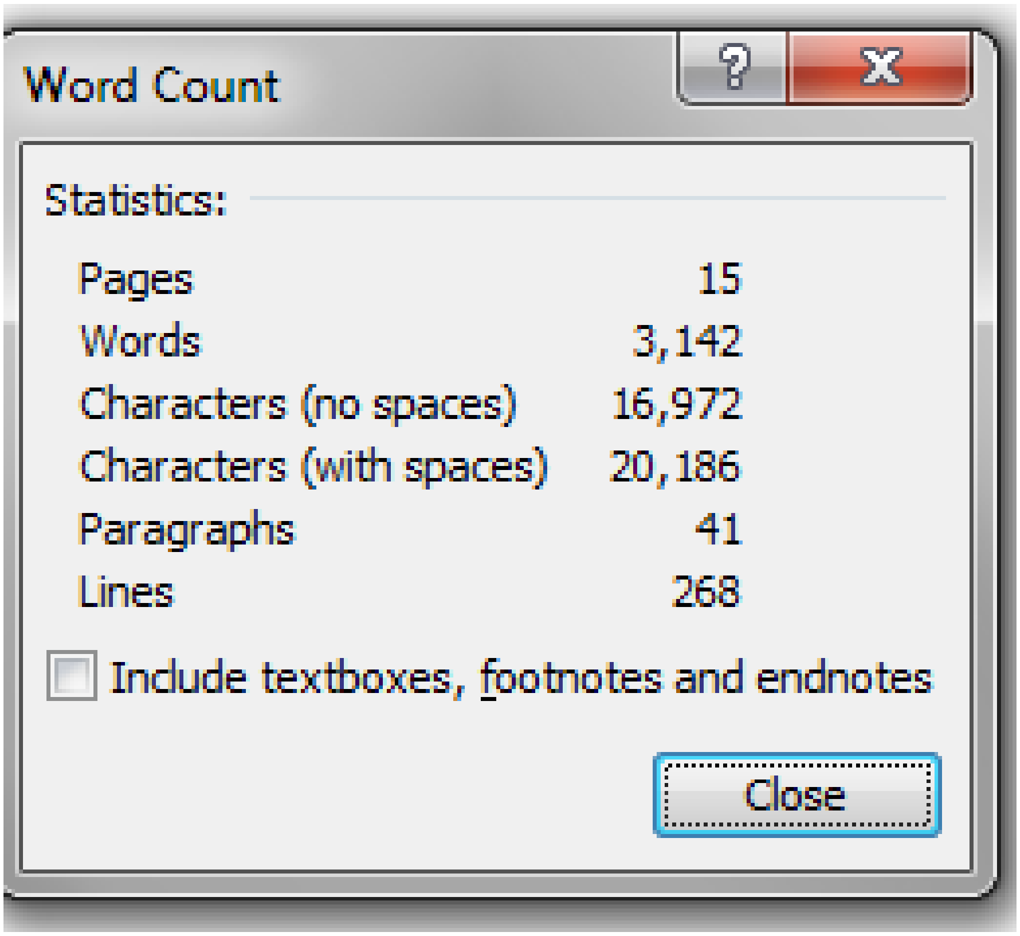
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