Alberta’s and Ontario’s liquor boards: Why such divergent outcomes?

Abstract: The provinces of Alberta and Ontario have chosen very different methods to distribute alcoholic beverages: Alberta privatized the Alberta Liquor Control Board (ALCB) in 1993 and established a private market to sell beverage alcohol, while Ontario, in stark contrast, opted to retain and expand the Liquor Control Board of Ontario (LCBO). This article examines the reasons for the divergent policy choices made by Ralph Klein and Mike Harris’ Conservative governments in each province. The article draws on John Kingdon’s “multiple streams decision-making model,” to examine the mindsets of the key decision-makers, as well as “historical institutionalism,” to organize the pertinent structural, historical and institutional variables that shaped the milieu in which decision-makers acted. Unique, province-specific political cultures, histories, institutional configurations (including the relative influence of a number of powerful actors), as well as the fact that the two liquor control boards were on opposing trajectories towards their ultimate fates, help to explain the different decisions made by each government. Endogenous preference construction in this sector, furthermore, implies that each system is able to satisfy all relevant stakeholders, including consumers.

Sommaire : Les provinces de l’Alberta et de l’Ontario ont choisi des méthodes très différentes pour distribuer les boissons alcoolisées : l’Alberta a privatisé l’organisme Alberta Liquor Control Board (ALCB) (régie des alcools de l’Alberta) en 1993 et établi un marché privé pour vendre l’alcool, tandis que l’Ontario a choisi tout au contraire de maintenir et d’agrandir la Régie des alcools de l’Ontario (LCBO). Le présent article examine les raisons de ces choix de politiques divergents faits par les gouvernements conservateurs de Ralph Klein et de Mike Harris dans chacune de ces provinces. L’article

The author earned a doctorate from Carleton University’s School of Public Policy and Administration in 2008, and this article is based on his dissertation. An earlier version was presented as an adjudicated paper at IPAC’s annual conference in Quebec City, 24–27 August 2008. Its findings are based on over forty interviews, conducted by the author either in person or over the phone, in both Edmonton and Toronto, during the 2005–06 academic year, with many of the key participants in both provinces in the political and bureaucratic spheres, as well as in relevant interest groups. He would like to thank all of them for their time and efforts. For the sake of brevity, this article will not use direct attributions or quotes from the participants who contributed to the original research project. Names of all participants and direct quotes and attributions were used in the original thesis. The author also wishes to thank the Journal’s anonymous reviewers for their helpful comments.
Canadians rely on public bureaucracies to distribute alcoholic beverages. With the very notable exception of Alberta, which privatized the Alberta Liquor Control Board (ALCB) in 1993 and established a private liquor retail market to replace it (Flanagan 2003; Laxer et al. 1994; West 2003), all Canadian provincial governments play an active role in the distribution of alcohol through large, publicly owned liquor boards. The largest of these Crown corporations, the Liquor Control Board of Ontario (LCBO), has undergone a remarkable set of reforms over the last twenty years. The dingy stores, staffed with surly employees who provided poor overall consumer value, are gone and have been replaced by a retail environment that is warm and inviting, where the quality of staff is high and selection of products superb. Alberta’s market-based system and the pivotal role that the publicly owned LCBO plays in Ontario, then, offer two contrasting examples of how to distribute alcoholic beverages in Canada. Even more interesting, it is the Ontario model – the reformed, publicly owned LCBO – that has become the standard most other provinces, to varying degrees, have tried to emulate.

The purpose of this article is to understand why the Conservative governments of Ralph Klein and Mike Harris did such radically different things with their respective liquor boards. Why did Klein choose to liquidate the ALCB and establish a private market to retail alcoholic beverages, while, in stark contrast, the Harris Tories chose not only to retain the LCBO in public hands but also to pour significant amounts of capital into it to allow it to complete its process of modernization? Given the similar ideological views of both of these governments and the congruency of the timing of the election of each, we might have expected to see parallel policies with respect to liquor distribution regimes, but we do not.

The answer to this question and this article are both based on research for a doctoral thesis. The article will argue that the divergent outcomes between Alberta and Ontario are due to different decisions made in the upper echelons of each provincial government with respect to their liquor boards and how each board could (or could not) help resolve the financial
challenges both governments faced in the early to mid-1990s. The article starts with a brief explanation of the decisions made by both the Klein and the Harris governments and provides a basic explanation for the divergent outcomes. This description of the policy outcomes will also include an explanation of the composition of the liquor distribution regimes in each province. On a theoretic level, the article draws some of its analytical perspective from John Kingdon’s “multiple streams decision-making model” (1984) and will show that both governments faced similar problems in the early to mid-1990s – a dismal economy and poor public finances – but that the solutions chosen, and the political terrain that each set of decision-makers faced, were dependent on a host of province-specific contextual factors (see Table 1).

While this may explain the rationale and the actions of the key decision-makers in both governments, this brief examination does not, however, fully explain our divergent outcomes. For that, we must dig deeper into the institutional, cultural and political histories of both provinces and their respective liquor distribution regimes. Picking up from Kingdon’s three-pronged framework, the article will draw on four characteristics of “historical institutionalism” to help explain the milieu in which the key decisions were made (Pierson 2000; Skocpol 1985; Thelen 1999). Kingdon’s multiple streams decision-making model, then, is encapsulated within a wider theoretical perspective of historical institutionalism. It is the vital importance of province-specific factors that makes the framework of historical institutionalism optimal for explaining these two divergent outcomes. Rational choice and Marxism, at their respective analytical hearts, are theories that espouse universalistic sets of assumptions and are thus less suitable for the purpose of explaining both the divergence in policy outcomes in Alberta and Ontario, and, more specifically, the reforms made at the LCBO.

**The problem: hard times and liquor distribution**

The Klein and Harris governments were each first elected during difficult economic times. The dismal state of the economy in both provinces, as well as deficit-plagued public finances, helped to shape the decisions made regarding both sets of liquor boards, especially in Alberta. In June 1993, when Ralph Klein’s Tories won the general election, Alberta was in the midst of a recession. The price for a barrel of oil was low, unemployment was high, at approximately ten per cent, and diminished revenues from resources meant that the government was running a $2.3-billion deficit (Mansell 1997). Liquidating the ALCB, then, had some very strong political appeal, since it would show the citizenry that this was a new era in the governing of the province. It would vividly demonstrate that the nascent Klein government was
committed to addressing the fiscal and economic troubles facing the province and that it would do so by reducing the size and scope of the public sector. Privatizing the liquor distribution system would also provide an opportunity for the government to fire over 1,800 unionized civil servants (who would be replaced by a far greater number of private-sector employees), as

| Table 1. Province-Specific Variables: Alberta and Ontario |
|-------------|-----------------|-----------------|
| **Variable** | **Alberta** | **Ontario** |
| Institutional trajectory | ALCB – moving towards privatization with the appointment of Bob King in 1990 | LCBO – solidifying public ownership with appointment of Andy Brandt in 1991 |
| Political culture – social and cultural aspects | Populist, supportive of privatization | Conservative, wary of making alcohol more easily accessible |
| Political culture – economic and historical factors | Popular perception of a more limited role for state | Acceptance of state intervention in economy and agricultural realms |
| Interests – other retailers in alcohol sector | Hoteliers (“off-sale” outlets) were mostly supportive of privatization initiative, influential | The Beer Store – supportive of current liquor distribution system, very influential |
| Interests – suppliers, large and small brewers | Not supportive of changes, unable to influence decision | Supportive of liquor distribution system, able to influence decision |
| Interests – suppliers, wine producers | None | Supportive of liquor distribution system and changes to LCBO, influential |
| Interests – suppliers, spirit producers | Not supportive of changes, unable to influence decision | Supportive of liquor distribution system and ardent proponents of changes to LCBO, very influential |
| Interests – suppliers, other products (imported brands) | Not supportive of changes, unable to influence decision | Supportive of liquor distribution system, somewhat influential |
| Public-health agencies | Critical of privatization, unable to influence decision | Supportive of liquor distribution system, raised public awareness at possible changes |
| Union | Ardent critics of privatization, unable to influence decision (partly done to eliminate unionized jobs) | Supportive of reforms made to LCBO, critical of any privatization initiatives, raised public awareness of possible privatization |
well as provide the government with an opportunity to liquidate a public asset and use the revenues from its sale to reduce the provincial deficit. Most importantly, liquor distribution would become a policy arena where a private market would replace a government bureaucracy without sacrificing government revenue, and it was thought that a private market would provide consumers with better prices, selection and service. The decision by Klein’s Tories to privatize the ALCB was a policy shift steeped in all of the tenets of neoliberalism.

Steve West, minister for municipal affairs, whose portfolio included the ALCB, announced the privatization initiative on 3 September 1993 to the surprise of almost all Albertans – including those in the alcohol beverage industry. By March 1994, the last of the ALCB’s 200 stores had closed and were replaced by approximately 500 privately owned stores by the end of that same year (MacKenzie and Giesbrecht 2006: 151). A little later on, all of the ALCB’s warehouse staff was fired, and the operation of the facility was contracted out to a private firm, Connect Logistics. Along with the privatization came a change to the taxation regime. The tax regime was changed from a cumbersome and complicated ad valorem system, where taxes were levied in accordance with the value of the products, to a much simpler, flat tax on the content of alcohol in each particular product type. This shift in the taxation scheme, as well as the establishment of a new retail model, was intended to be revenue neutral, and the government earned the same amount from alcohol sales after privatization as it had before.²

The resultant private market created by the Alberta government was not, however, a “free” marketplace but rather a “competitive” marketplace, specifically designed to protect the interests of small, independent businesses. Any law-abiding adult in Alberta, as long as he or she could acquire a municipal business license, was allowed to open a liquor store, since the provincial government placed no restrictions on the number or concentration of stores. A monopoly remained at the wholesale level. All alcohol (except domestic beer) had to be purchased from suppliers, who distributed their products through Connect Logistics, which operates the old ALCB warehouse in St. Albert (Flanagan 2003: 2). Connect Logistics levies a per diem, per case charge on all orders. All retailers pay the same wholesale costs (there is no discount for large purchases), and delivery charges throughout the province are uniform (a store
in Edmonton pays the same price as one in Fort McMurray). Finally, all liquor stores must be “free standing” and, for instance, must have their own staff and checkout counters (West 2003: 6). Ninety per cent of the store’s business must be from the sale of alcoholic products; cigarettes cannot be sold. All of these restrictions and regulations were specifically designed to limit the market power of the large grocery stores and to make the market resemble a “level playing field” among all retailers. As of 2006, there were over 1,100 liquor retail distribution points in Alberta permitted to sell all types of alcoholic beverages (see the Alberta Gaming and Liquor Commission’s web site, at http://www.aglc.gov.ab.ca/pdf/quickfacts/quickfacts_liquor.pdf).

In Ontario, the Harris Tories faced similar economic difficulties. In the mid-1990s, Ontario was mired in a recession and had an unemployment rate of 8.9 per cent. The government’s annual deficit in 1996 was a staggering $9 billion (Ontario, Ministry of Finance 1996). The Harris Tories were elected on a mandate to eliminate the deficit, lower taxes, and, more generally, to scale back the overly interventionist role played by the post-war welfare state, including selling off government assets such as the LCBO. Their plan was entitled the “Common Sense Revolution,” which functioned both as a (very successful) election platform and a neoliberal-influenced ideological document (Ibbitson 1997). However, once elected, the government focused most of its energy and political capital on eliminating the deficit and reducing taxes. To do this, not surprisingly, government expenditures had to be reduced dramatically. This led to many bitter fights with public-sector unions, including those representing nurses and teachers, and the municipalities, as well as to the restructuring of (and the dramatic reduction in funding for many) social welfare programs. While the Harris Tories promised to sell off the LCBO during their election campaign (even holding a news conference on the front steps of its head office), they were too preoccupied with other policy initiatives to seriously consider such action. A pre-emptive public relations information campaign by the LCBO’s union and the Ontario public-health community in direct response to the Tory’s privatization rhetoric of the mid-1990s helped to solidify the public’s general aversion to the possibility of making changes to the liquor distribution system and the LCBO’s seminal place within it (Giesbrecht, Stoduto, and Kavanagh 2006: 175–200). Altering the liquor distribution system, as will be explained, would have required far too much political capital for a marginal amount of gain, since it would place the government in conflict with a number of very powerful interests in the province. Too much political capital, in short, would be spent to solve a problem most Ontarians “didn’t know they had” with their liquor distribution system.

What makes the actions of the Harris Tories so interesting – and counter-intuitive – is that they did not just refrain from selling off the LCBO but they helped to complete its process of modernization by dramatically increasing its capital allotments. From the 1993–94 fiscal year to the 1997–98 fiscal year,
the LCBO spent an average of $22.92 million per year on capital improvements, but in the 1998–99 fiscal year, it increased this expenditure to $40 million, and it has been well above $50 million for every succeeding year (Liquor Control Board of Ontario, various years). This money was used to spruce up the LCBO’s 600-store network, providing the stores with new fixtures, lighting, layouts and the like, and to improve staff training, enhance its warehouse and corporate infrastructure, and to increase its overall operational efficiency. Such changes, as we will see later, were needed in order to sell Ontario consumers, particularly female consumers, higher-value products, and to alter the way Ontarians viewed the consumption of alcoholic beverages. As a result of the efforts to modernize, its stores are well-designed retail outlets that provide Ontario consumers with a high level of consumer value. Customer satisfaction levels at the LCBO are over eighty per cent (Deloitte and Touche 2006:10).

The Conservative governments of Ralph Klein and Mike Harris, it is worth noting, both represented significant ideological shifts within the conservative movement in Canada (Laycock 2002). They represented a move away from the Macdonald type of red Tory conservatism, which very much had the conceptual space for a positive view of the role and value of the state and which believed that state intervention in the economy was justified so long as its aim was to promote business enterprise and general economic growth (Rea 1985:18), to a more radical form of conservatism, heavily influenced by neoliberalism. Neoliberalism is very critical of the state and questions its value, believing that it should play a smaller role in the economy and society more generally. It calls for the privatization of public assets, the elimination of deficits, reductions in tax rates and numbers of civil servants and the like and, most critically, lauds the value of the marketplace, deeming it a much more effective vehicle than a state-run bureaucracy for solving collective action problems. Such a philosophical shift in both Conservative parties helps to explain the outcome in Alberta, but does not do the same in Ontario. To better explain the outcome in Ontario and to understand the logic behind what happened in Alberta, we need to dig deeper into the political cultures and histories of both provinces, as well as the characteristics of their respective liquor distribution regimes.

The solution and the politics: four characteristics of historical institutionalism

The political and cultural histories of Alberta and Ontario

The political culture and histories of Alberta and Ontario are key to understanding the actions of the decision-makers in both provinces. In Ontario, there are two important variables to consider: its Protestant past and the
history of state intervention in its economy, particularly in the agricultural sector. In Ontario in the 1990s, there was a general sense of caution surrounding the increasing availability of alcohol beverages. Such an apprehension is partly a product of Ontario’s Protestant past, but, for our purposes, we can look at how this apprehension manifested itself in a number of socially conservative elements in both the civil service and the Ontario Tory Party. Protestant immigrants founded Ontario, and its social and cultural development was shaped by a set of staunchly puritan social values, which supported its relatively strong temperance movement in the early part of the 1900s. These values remained relevant to some of the socially conservative members of Mike Harris’ Conservative Party when it came to power in 1995 and, in particular, to a number of individuals in the “law-and-order” segment of the party, such as Bob Runciman, who were very critical of any effort designed to make alcohol more accessible. A personal tragedy strengthened apprehensions about providing the public with easier access to alcohol: in 1995, Ernie Eves’ son, Justin, was killed in an automobile accident that most likely involved alcohol. Ernie Eves and Mike Harris were close friends, and the loss was devastating to both men (Ibbitson 1997: 136–37).

Prior to 1995, many individuals in the government and bureaucracy had serious reservations regarding the LCBO’s modernization efforts and, as will be explained below, the manner in which the LCBO altered consumer preferences was specifically intended – in the abstract, at least – to mitigate the possibility that changes to the LCBO would result in higher levels of alcohol consumption.

The decision to privatize the ALCB was, perhaps most importantly, a policy shift that was congruent with simple populist common sense: why should government be in a business that could easily be performed by the private sector?

The provincial state’s willingness to intervene both in the economy and, particularly, the agricultural sector in Ontario is an additional factor to consider. Starting with canals in the mid-nineteenth century, railways a little later on, and assistance with developing natural resources in the province, the most notable being the creation of the Hydro-Electric Power Commission of Ontario in 1905 to provide cheap, reliable power to industries (Nelles 1974), the business class in Ontario welcomed government assistance, since there was often a dearth of adequate capital for them to exploit these resources on their own (Wise 1985: 171–72). Government intervention in the agricultural sector was pronounced in the post-war period with, for instance, the implementation of product-specific marketing boards to limit
the influence of market forces. The development of the Niagara grape-growing and wine-making sector, as well, can be attributed to interventionist policies of successive Ontario governments (Mytelka and Goertzen 2004). The historical and political ethos of Ontario, as illustrated here, did not dictate the types of decisions that the Harris Tories made *per se* but rather set limits on and constrained the decisions that were (or were not) made. These factors shaped the acceptability – in a political sense – of decisions made by the Harris government. It is for this reason that the policy outcome in the alcohol distribution sector roughly matches the general ethos of the province. “The Good Old Province of Ontario” has yet to shed its historically imposed cultural, political and institutional baggage.

In Alberta, political culture and history were also significant factors in the Klein government’s policy decision to liquidate the ALCB, as well as its decision as to how to structure the new private marketplace. Alberta’s political culture is well articulated in *Democracy in Alberta: Social Credit and the Party System*, in which C.B. Macpherson (1953) argues that Alberta comprised a relatively homogenous populace of *petit bourgeois* commodity producers (farmers) who viewed themselves as semi-colonial subjects on the periphery of the capitalist system that was centred on the manufacturing and financial interests of central Canada. In response to these structural inequalities, Albertans opted to support new political parties. Macpherson also asserts that these parties embodied a new form of plebeian democracy, eschewing normal partisan, cabinet-style representative governance. These new political parties and methods of governing were needed to stand up to the external forces of outside capital. As such, Alberta developed a “quasi-party” system of governance that is a product not of its internal divisions but rather of the divisions between it and the external capitalist economy. Macpherson’s theory explains, at least in part, why Albertans tend to elect strong, majority provincial governments. It also helps to explain Albertans’ penchant for choosing to be governed by a single party (and often a single leader) for long periods of time (Dyck 1986: 488). The political and economic reality of western alienation felt (or experienced) by many Albertans, in other words, has specific political effects and has formed the basis of populist protest movements originating with the *petit bourgeois* producers.

Despite some valid criticisms of his theory (see Bell 1992; Richards and Pratt 1979), Macpherson’s three seminal observations are relevant to our case study: first, there is the perception – one might even argue a myth – that Alberta is a province composed of independent entrepreneurs and that these entrepreneurs form the backbone of its agricultural and petroleum industry; second, Albertans are inherently sceptical of external political powers and Ontario-based capital, such that a strong “us-versus-them” mentality developed in the province; and, third, there continues to be a distinctive populist bent to Alberta’s political discourse. The liquor store privatization initiative
and the subsequent establishment of Alberta’s new liquor market tapped into these provincial myths and characteristics. The elimination of a public agency appeased the anti-government elements in the province (as well as those who had adopted a more distinctly neolibera máy inspired perspective), and the structure of the new market provided entrepreneurial opportunities to small Alberta-based businesses. The decision to privatize the ALCB was, perhaps most importantly, a policy shift that was congruent with simple populist common sense: why should government be in a business that could easily be performed by the private sector? Ralph Klein’s folksy, populist demeanour fit well with this particular policy choice. When discussing his plans for Alberta’s future in 1995, he did not see them as revolutionary but rather as evidence that he and his party were “simply renewing our commitment to the basic values on which we built our province. Alberta stands for common sense” (Cooper 1996: 11). Finally, by deciding to privatize the ALCB, Alberta differentiated itself from all other provinces, demonstrating that it had the political courage to take real steps to alter the role of the provincial state, at least in one policy arena. The fact that the Alberta government did not establish a “free” market to replace the government-owned monopoly but instead intervened in the market to privilege small businesses would be defended as the best way of ensuring high consumer value. The companies that were arguably hurt by this specific intervention – the large supermarket chains – were headquartered outside of Alberta and could be seen as examples of outside capital. The Klein government’s decision to radically alter the liquor distribution regime was congruent with the popularized – even mythologized – view of the province and its people.

The LCBO of the mid-1980s was a retailing and organizational disaster

Timing and sequencing of changes at the ALCB and the LCBO

The ALCB and the LCBO share a common early history. Both were created in the 1920s, the ALCB in 1924 and the LCBO in 1927, as responses to outright prohibition, which was widely seen in both provinces as a failed policy. (It is worth noting that both liquor control boards each contributed significant sums of money to their provincial treasuries, helping their political masters out of a tight financial position.) Both were responsible for the distribution of alcoholic beverages, through their wholesale and retail networks, as well as the regulation of bars and taverns, and both were responsible for enforcing a relatively draconian set of rules and regulations in their stores and the
establishments they oversaw. Alcohol might have been legal to drink in Canada, for those over the age of twenty-one, but its sale, distribution and consumption would continue under the “watchful eyes” of the provincial liquor boards (Heron 2003: 277). The only exception to the retail and wholesale monopoly held by the ALCB and the LCBO was domestic beer. In Alberta, the brewers operated their own wholesale network and could sell directly to consumers through hotel taverns as “off-sales”; in Ontario, a brewers cooperative called The Brewers Retail (now known as The Beer Store) owned and operated its own wholesale and retail network.

With partial privatization working well, and evidence before him that a larger role for the private sector did not increase social – and, more importantly, political – problems for the government, Mr. King then set about devising a strategy to privatize the entire system.

The ALCB and the LCBO continued to distribute and regulate the consumption of alcohol throughout much of the post-war period. Canadians adopted more tolerant attitudes towards the consumption of alcohol during this time, and the liquor boards and the stringent regimes that they enforced were gradually relaxed. In the early 1960s, for instance, permits were no longer required to purchase alcohol in Ontario; and, in the early 1970s, the drinking age was lowered from 21 to 18 in Alberta and from 21 to 19 in Ontario. The structure of the liquor distribution system in both provinces and the seminal position of each liquor board within the distribution system, however, remained relatively unchanged until the 1980s.

By the mid-1980s, however, these two organizations were quite different. The ALCB, interestingly (and ironically) enough, was a reasonably effective and efficient retailer in comparison to its Ontario counterpart. The ALCB’s capital expenditures in 1986, for example, were $13 million, and it had a store network of approximately 230 locations. In contrast, the LCBO’s capital expenditures for the same year were $7.7 million, and these were used to maintain a store network almost three times the size of Alberta’s (ALCB 1986: 11; LCBO 1987: 25). The LCBO of the mid-1980s was a retailing and organizational disaster. Under-capitalized and over-staffed with patronage positions in both its store network and head office, the LCBO had no effective marketing, human resources or information technology departments. Product movement reports took six months to reach senior management. LCBO stores were dingy, and their staff was disinterested and surly. Its organization and management structures had changed little since its inception.

For our purposes and to answer our key question, it is important to appreciate the organizational changes that occurred at both liquor boards
and within each respective liquor distribution regime. In Ontario, the LCBO began to undergo fundamental organizational changes, starting in the mid-1980s, as it embarked on a process of modernization. This required the wholesale replacement of its board of directors and its entire senior executive staff. The new executive team then started a long and challenging process of creating a modern retailer from a dysfunctional government bureaucracy. This process was initiated on orders from David Peterson’s new Liberal government, which wanted to see better returns from this institution and which was embarrassed by its pitiful state. Outright privatization was not a possible option for Peterson’s government, since, from 1985 to 1987, it was governing in a coalition with Bob Rae’s New Democratic Party, which sought to protect the LCBO’s unionized workers.

The process of modernization of this Crown asset continued through the late 1980s. It then received another significant boost when Bob Rae appointed Andy Brandt CEO of the LCBO in 1991. Mr. Brandt was a former businessman from Sarnia, Ontario, who had spent the previous twenty years in provincial politics. He had been a minister in the previous Conservative government and was the party leader during the late 1980s. Bob Rae wanted to tap into Mr. Brandt’s business and political skills. He was to continue the process of modernization in order to increase the revenues the LCBO remitted to the provincial government. Mr. Brandt was (and is) an exceptionally dynamic individual who is intelligent, sociable and very politically astute. His role was to act as a liaison between the LCBO and its political masters, and he was a tireless advocate of the value of the LCBO as a public asset. By 1995, under his leadership, the LCBO had largely reformed its organization and had made key changes to its staff and store network. However, despite the efforts of its senior staff, the LCBO’s modernization efforts remained limited by relatively small allotments of capital (averaging $22.93 million from 1993 to 1998). Increased capital infusion from the government did not come to the LCBO until after the election of the Harris Tories. Andy Brandt was the seminal policy entrepreneur responsible for leading the LCBO down its modernization path. Once it became a modern retailer, the LCBO was able to argue effectively for increased capital funding from its political masters. Brandt and the senior management of the LCBO, furthermore, were able to convince the government that any change to the liquor distribution system in Ontario, including the LCBO’s key place in that system, would threaten the amount of money that the LCBO was able to remit to the government—particularly the monopoly rent portion of its “profit.” No government wants that.

In Alberta, we witness similar path-dependent institutional behaviour, albeit in a different direction, towards privatization. Starting in 1985, the Alberta government slowly expanded the role of the private sector in the distribution and delivery of alcoholic beverages, while gradually reducing
the role of the ALCB. By December 1990, for example, the government had licensed 13 wine and 27 cold beer stores, in addition to the 212 ALCB stores and 497 “off-sale” locations already in existence in the province. It was the appointment of Bob King as CEO and chairman of the ALCB in January 1990 that set the privatization effort into high gear. A lifelong civil servant, Mr. King was sent in by the Don Getty government to run the ALCB. King was given specific orders to examine the ALCB’s operations, improve its efficiency, and continue the expansion of the private sector in the alcohol distribution system. He was not to settle into a tenured position as its head. Mr. King made changes to the organization to reduce its costs, closing down the Calgary warehouse, for example, while expanding the role of the private sector. Just before full-scale privatization in September 1993, there were 202 ALCB stores (22 fewer than in 1988), 23 wine stores, 30 cold beer outlets, and 532 hotel “off-sale” locations (MacKenzie and Giesbrecht 2006: 151). Other changes included Sunday openings for wine and beer stores, as well as a policy change to permit consumers to use credit cards for the purchase of alcoholic products.

With partial privatization working well, and evidence before him that a larger role for the private sector did not increase social – and, more importantly, political – problems for the government, Mr. King then set about devising a strategy to privatize the entire system. He researched, planned and ultimately implemented both the elimination of the old ALCB infrastructure and the structure of the new liquor distribution regime. His plan came to fruition once it received the political support of the minister responsible for the ALCB, Steve West, who guided this plan through the political sphere of the caucus and the premier’s office. Like Mr. Brandt, Mr. King was the seminal policy entrepreneur in this arena. With the help of Mr. West, he guided this policy through the various stages until the policy window opened in September 1993. Advertisements for the sale of the ALCB’s assets and applications for individuals to apply for liquor licenses appeared in newspapers in the days following the public announcement; the government wasted no time in implementing its new policy.

Important interests in the Alberta and the Ontario liquor regimes

The role and relative power of interest groups in Alberta and Ontario are also key reasons for the divergent outcomes in each province. In Ontario, powerful interests had the most significant influence on the key decision-makers. Ontario’s liquor retail market is an oligopoly. In 2007–08 fiscal year, the Ontario liquor market was worth over $9 billion, and the LCBO, with its 604 retail stores, had 50.8 per cent of the market. The Beer Store, which is majority-owned and operated by Molson-Coors and InBev (Labatt), had 29.5
per cent of the market and operated 440 retail stores and its own warehouse system. There were also 429 wine stores, which can only sell the products that their owners produce (LCBO 2008: 18, 45). Approximately 290 of these stores are owned and operated by two large wineries, Vincor and Andres (the third largest is Colio estates, which owns 14 stores), and the rest, for the most part, are individual stores attached to small wineries. The wine stores have 2.7 per cent of the market. The rest of the market is split among the illegal and homebrew sectors, duty-free, on-site brewery and distillery stores as well as the 216 agency stores that are supplied by the LCBO. In 2008, to serve Ontario’s almost 13 million citizens, there were a total of 1,745 retail outlets; owning and operating a liquor retail outlet in Ontario is very lucrative privilege. The large brewers and the Ontario wine store owners are well-connected and well-financed entities. They are influential within the Ontario political sphere and do not wish to see changes to the structure of the liquor retailing system.

Alcohol’s inherently sinful nature limits peoples’ tendency to demand concrete changes in how alcohol is sold. There is no alcohol version of the friends of medicare

Suppliers of alcoholic beverages also strongly support the current liquor distribution regime in Ontario. This includes the aforementioned large brewers and Ontario-based wineries but also incorporates the purveyors of imported products, the small and medium brewers, and, for the most part, the smaller wineries. The spirit producers strongly support the current liquor distribution regime and the LCBO’s seminal place within it as well. Ontario-based wine makers, in particular (and to some extent small and medium-sized brewers), in addition to operating their own stores, receive preferential treatment from the LCBO and benefit from the rules governing the marketplace and mark-up levels not enjoyed by other purveyors of alcoholic beverages. All suppliers largely support the current system because selling through the LCBO (and to some extent The Beer Store as well) reduces transaction costs associated with their business. A centralized distribution system reduces administration, marketing and labour costs for suppliers. In non-unitary systems, such as Alberta, where most stores are independently owned, for instance, supplier firms must employ large sales forces in order to convince store owners to carry their products; this increases their costs. In contrast, once a supplier has secured shelf space within the LCBO’s store network, all of the marketing and administration processes are uniform. In addition, the LCBO is, for the most part, a very good company with which to conduct business because it does not exploit its dominant market position at the expense of its Ontario-based suppliers.
The Beer Store, likewise, for the most part, is also a good company with which to do business, since it provides relatively open access to its system to small and medium-sized brewers, and there are low distribution costs for the products carried there.

In Alberta, it was the absence of powerful oppositional interests to the government’s plan, as well as the speed and decisiveness of the government’s decision, that made privatization an attractive policy option. The Alberta Hotel and Lodging Association and the Alberta Restaurant and Foodservice Association both supported the privatization plan and structure of the resultant liquor market. The hotel association, in particular, is a well-organized and influential group whose membership generally supported the government’s policy, since the new policy provided many of the members with an opportunity to expand into a full-scale liquor retailing business. The Alberta Liquor Store Association, while created after the privatization initiative, is also an important interest group. It strongly supports the rules and regulations imposed by the government on the liquor retailing market following privatization. The municipalities and public health officials at the Alberta Alcohol and Drug Addiction Commission had no opportunity to voice any concerns until after the government had announced and started to implement its plan. All suppliers of alcoholic beverages were initially furious at the government’s privatization initiative (largely because the changes would increase their costs and radically alter their business models), but they realized that the government was steadfast in its decision and that there was little that could be done to change the government’s course. They chose not to join with other opposition groups, such as the unionized workers, to resist the government’s plan but rather set out to adapt quickly to the new retailing regime. In Ontario, the prospect of fighting with the large wine producers, The Beer Store, and the spirit manufacturers (who are more entrenched in the Ontario economy and political system than they are in Alberta) was simply not an attractive option for the Harris government.

Endogenous preferences

The endogenous nature of preferences in this particular sector, in both Alberta and Ontario, helps to explain a number of important research findings. The first important finding is that both systems work satisfactorily, since they both manage to provide a high level of customer value as well as earn monies for their provincial treasuries. They also both provide stable markets in which suppliers can ply their trade. Each system has both strengths and weaknesses. For instance, in Alberta, there are far more stores and they have longer business hours than in Ontario (some stores in Alberta are open until 2:00 a.m.). However, the quality of staff and each store’s general ambiance are noticeably poorer than in their Ontario counterparts. Ontario’s stores, by contrast, are warm and inviting, and their staff is well-trained and helpful.
(and paid significantly higher wages than their Alberta counterparts), but there are fewer stores that operate for fewer hours. Both systems are great improvements on what preceded them – the old ALCB network and an unreformed LCBO – and both provide customers with a wide selection of products at reasonable prices. Albertans and Ontarians are very happy with their respective systems. So long as consumers have access to a reasonable selection of alcoholic products at fair prices, they are, for the most part, satisfied with their liquor distribution systems.

Interestingly enough, there is no significant price difference for alcoholic beverages between the two systems. If there is a difference, it is largely due to the different taxation regimes and the overall tax rate imposed on alcoholic products rather than to the structure of the distribution system itself. Furthermore, even if there were significant differences in price and quality of service between the two systems, opposition, in political terms, would be limited. This is partly due to the fact that the majority of alcohol is consumed by a relatively small proportion of the population. Greg Flanagan quotes from a 1998 World Health Organization report that shows that ten per cent of the heaviest drinkers consume more than fifty per cent of the alcohol sold (2003: 11). This group comprises clinical alcoholics as well as binge drinkers, who, not surprisingly, are relatively marginal in political terms and are not likely to raise concerns with the manner in which alcohol is sold. Nor is the more politically conscious middle-class likely to raise a fuss as to the condition of the liquor distribution system. Other concerns, such as health care and post-secondary education, are more likely to strike a chord with the voting public. Alcohol’s inherently sinful nature limits peoples’ tendency to demand concrete changes in how alcohol is sold. There is no alcohol version of the friends of medicare.

Endogenous preference assumptions are also illustrated by the fact that the LCBO has successfully changed how people view alcohol as a product, as well as their own individual purchasing habits. Alcohol is no longer seen by most people as a sinful vice, and, as long as it is consumed in a responsible manner, it is viewed as a normal part of a healthy, middle-class lifestyle. The LCBO’s (largely successfully) efforts to shift consumer perceptions of alcohol consumption, as well as to alter the types of alcohol people consume, were necessary in order for the LCBO to meet the two somewhat contradictory demands it received from the government when it started its modernization program: to increase remittances to the government without selling higher volumes of alcohol – this was the ostensible rationale for the adoption of this policy. The solution to this problem was to sell Ontario consumers higher-value products – to “up-sell” consumers, in industry lingo. This is why the LCBO spent so much money sprucing up its stores, adding tasting and sampling rooms, and improving its staff training (on both social responsibility and product knowledge), among other initiatives.
It also launched a very popular lifestyle magazine, *Food and Drink*, that is filled with recipes and entertaining ideas. All of the LCBO’s reform efforts were specifically designed to attract more female shoppers and to appeal to their specific shopping needs. Individual sales per visit to the LCBO have grown significantly. It is the industry leader, and all liquor boards, generally speaking, are now attempting to emulate its policy of selling higher-value products in order to increase remittances to their respective political superiors.

It is important to note that alcohol causes significant damage to our society and that this fact does, in a general sense, help shape government policy towards it, particularly taxation rates. In 1992, for instance, total costs arising from alcohol use and abuse were conservatively calculated to be $7.5 billion ($265 per person), or 1.09 per cent of that year’s GNP (Single et al. 1998: 1000). This includes direct costs, such as medical costs, as well as indirect costs, such as lost worker productivity. However, these costs, in political terms, are relatively diffused and spread among many different public and private agencies. This is important, since the money remitted by the LCBO (and all monies collected from the sale of alcohol more generally) is gathered in relatively cheap political terms and is transferred to the government’s coffers directly. Few individuals appreciate how much the price of alcoholic products is really a sin tax on their indulgence. Even fewer people appreciate that the LCBO has successfully altered their preference structures, convincing them to purchase higher-value products than they otherwise would have purchased, had they not been exposed to the LCBO’s beautiful stores, slick marketing efforts, and helpful staff. People very much like the LCBO. What could be a more valuable form of revenue for a government than money from citizens who eagerly and willingly pay it? Revenue generation schemes like the LCBO are, quite simply, hard to find.

**Conclusions**

There are two important findings from this set of case studies. The first is that while there is much discussion surrounding neoliberalism and the effects that it, as an ideology, has had, and is having, on Canadian governing structures, our two case studies illustrate that it is contextual matters that very much shape policy outcomes. While there were many adherents to this ideological perspective in both the Klein and Harris governments, and many calls for privatization, criticism of the public sectors and statements about the efficacy of the markets made by these adherents as well as by both governments generally, the eventual outcomes in both provinces can perhaps best be attributed to the historical, cultural, political and institutional composition of each province. Many of Harris’ advisers, for example, vehemently detested the LCBO and its dominance of the market, but they were able to distance themselves from their own personal views and provide sound political advice to the premier in order to avoid dangerous political
fallout and to focus on their core goals. Governments, after all, only have a limited amount of time and energy and are overwhelmed with a flood of serious problems that they are required to identify and hopefully resolve. Monopoly rents, likewise, were antithetical to many in the Harris government, but these became more palatable when viewed as an enormous source of government revenue that people don’t mind paying as much as they might mind paying other types of taxes. (State involvement in gaming follows a similar pragmatic path; all governments, regardless of their partisan stripes or ideological groundings, happily participate – and profit – from this particular indulgence.) Even in Alberta, ideological imperatives – in theory, one would have expected the Alberta government to step back and allow anyone, including large retail stores, to enter the newly created private market – gave way to pragmatism and the political need to structure the new private market to favour small-scale, Alberta-based businesses. In this sector, at least, the governments of both provinces acted in a highly pragmatic manner, given the political and contextual landscape they faced. It is pragmatism, not philosophy, that guides most governmental actions, and that pragmatism is largely determined by contextual factors.

The importance of context in this sector to the outcomes we witnessed suggests some important criticisms of both the Marxist and rational choice theoretical frameworks by raising questions as to their usefulness in explaining these policy outcomes. Both tend to lean a bit too heavily on a number of universal assumptions, and, thus, both tend to overlook place-specific factors: the Marxists see the state as a servant to the firms in the market, and rational choice scholars consistently believe that markets are far superior to bureaucracies at solving collective action problems (especially in arenas such as retailing). Marxists, in their more recent interpretations of the global economy, tend to underestimate the degree of power the state has in relation to the forces of global capital. Privatization of public assets, for example, is often touted as one of the key indices that the state is subservient to the marketplace and of the market’s general ascension over the state following the post-war compromise. Neoliberal-inspired governments, such as that of the Harris Tories, epitomized many of these Marxist assumptions – they did, after all, cut business regulations and taxes, reduce welfare rates, and the like – but the Harris Tories did not liquidate the LCBO. In fact, they did more than any other government to solidify its public ownership. This type of outcome contradicts what a Marxist interpretation would lead us to predict about the Harris Tories and the LCBO. Even in Alberta, where such a prediction was (largely) fulfilled, such a view would not explain why the Klein government retained and modernized ATB Financial, a provincially owned and operated bank, during the late 1990s, in much the same way as the LCBO was reformed in Ontario. Again, contextual factors, such as political culture, are essential to understanding the viability (or not) of particular
policies, and a Marxist-type analysis does not place an adequate amount of emphasis on these factors.

Similarly, a rational choice perspective cannot account for the success of the LCBO in Ontario or the divergent nature of our outcomes more generally. (It is more useful in explaining the outcome in Alberta, but would not be able to explain what happened to ATB Financial nor, in the case of the privatization of the ALCB, why the government chose to structure the market in the manner that it did following privatization.) The LCBO is an effective retailer that is able to provide all stakeholders, including consumers, with high consumer value, the government with ample revenues, and the suppliers with a venue to conduct their business. Here is an example of a publicly owned entity in an industry almost wholly in private hands that runs stores that people very much enjoy shopping in. The reformed LCBO thus shows that “there is an alternative” to outright privatization of public assets in order to improve their effectiveness. As for explaining the divergent outcomes: rent-seeking behaviour on the behalf of suppliers, in order to maintain their privileged position in the LCBO, or the self-interest of the bureaucrats who reformed it, might help to explain our Ontario outcome but, if so, would not explain why Alberta suppliers would not have been similarly motivated to protect their privileges, nor why the ALCB bureaucrats actually steered the ALCB towards privatization, in accordance with the wishes of their political masters. Context, then, must account for a significant part of the decisions that were made in these two cases.

Notes

1 Please note that this article does not make any normative comments about the efficacy of each liquor distribution system nor does it make specific remarks on the relationship between the form of the distribution system and what impacts that may (or may not) have on related social and health problems arising from alcohol consumption. The focus of this article is on the different decisions made by the Klein and Harris governments regarding their respective liquor boards and the key factors that shaped the decision-making environment. The potential health impacts that arise out of the different configurations of liquor distribution systems are the subject of intense debate. The academics cited here make strong normative claims as to the social and health impacts that the privatization policy in Alberta had on the citizenry. Douglas West argues in favour of the privatization initiative and claims that there is little evidence to support the assertion that increased availability can be causatively related to increased social and health-related problems. In direct contrast, Gordon Laxer and his colleagues, and Greg Flanagan are very critical of both the privatization policy itself and the resultant negative health and social effects that this policy change had on the citizens of Alberta.

2 In fact, the changes in the taxation regime earned the government substantially more than under the old ad valorem system. However, the government returned to the suppliers all monies generated in excess of the $454 million earned in 1993.

3 These calculations are my own and were based on data in the annual reports of various years released by the LCBO.

4 It is interesting to note that such a populist view did not extend to ATB Financial, a provincially owned bank, that was not only not privatized under Klein’s reign but that was revitalized in
the 1990s in a remarkably similar manner as the LCBO was in Ontario. There were a number of reasons for this. ATB has a strong presence in rural Alberta and connections to many small and medium-sized businesses in the agricultural and oil and gas industries, and many of these business people are Tory Party supporters. Also, it had earned a significant amount of goodwill with its client base in the 1980s, when Alberta was in the midst of a recession and many central Canadian banks stopped lending money to these businesses. Some accusations of political meddling in its lending practices to the owner of the West Edmonton Mall further dissuaded the government from bringing any unwanted attention to this organization by altering its ownership structure. Ontario sold off the Province of Ontario Savings Office to Desjardins in 2003. The populist bent of Alberta politics, in other words, worked in favour of privatizing a liquor retailer but not a locally owned financial institution that offers competition to Ontario-based national banks.

5 The importance of the monopoly rent portion of the "profits" that are returned from a liquor board to its political masters is significant. The profit remitted by the LCBO comprises three components that are not separated from each other. The first is an operating profit. The LCBO has a wholesale and retail network that it uses to distribute alcoholic products, and it earns some of its profit from performing this function. The second portion of the profit is a sin (or consumption) tax on alcoholic products. The third portion is a monopoly rent. The monopoly rent portion comprises approximately half of the total profits that the LCBO returns to the government. This monopoly rent is derived from a number of sources. For instance, from consumers, it means an under servicing of the market in a geographic sense and temporal sense; there are fewer stores in Ontario than in Alberta and they have more limited hours of operation. From suppliers, some of the monopoly rent comes from the tremendous buying (and thus bargaining) power of the LCBO, particularly when it is dealing with large, multinational alcohol firms.

6 This is a very general statement and it does require some further explanation. Albertans actually pay slightly higher amounts for similar alcohol products but the difference is marginal. However, there are some very important factors that serve to compensate Albertans for the slightly higher prices. For instance, at the retail level, consumers have more products from which to choose (but they might have to visit more stores to find what they are looking for, since the average Alberta store carries fewer products than the average LCBO store). However, there are many more liquor stores in Alberta and they are open longer hours, which makes purchasing alcohol more convenient for consumers and reduces their personal transportation costs. In addition, stores offer price specials (sales), free products (such as soft drinks) and free services (such as delivery). The prices for premium products are also substantially lower. Increased price dispersion (variation) means that if consumers shop around, they can find markedly lower prices on many products. Intense competition between stores helps to keep prices low. Most critically, the nature of the distribution system does not have a causative effect on the price of alcoholic products. This is principally because a high proportion of the price of alcohol is actually a tax. The price, then, does not accurately reflect the real cost of the product since the production, distribution and retailing costs of the product are significantly lower than the actual retail price in stores. The prices of alcoholic products are causatively related to the type, form and intensity of the taxes that both the federal, and especially the provincial, governments impose on this product rather than the characteristics of the system used to distribute it. Alcohol beverage prices in Canada are largely determined by a series of political decisions regarding how much money governments choose to expropriate from the alcohol industry. Tobacco, for instance, is sold entirely through the private sector, yet the price of a package of cigarettes is significant. This is due entirely to excise taxes imposed by the provincial and federal governments.

7 While ostensibly the plan to sell higher-value products was meant to meet the LCBO's two conflicting mandates from its political superiors, there is the distinct possibility that the
improvements made to the retail environment resulted in selling higher volumes of alcoholic beverages, regardless of their value. The nice stores, helpful staff, and the like might very well have encouraged more consumption and not simply promoted people to consume the same volume of alcohol while purchasing more expensive products. In fact, average alcohol consumption, after a period of steady decline, has increased from 7.3 litres of absolute alcohol per person to 7.7 litres per person between the years 1997–98 to 2001–02 (Giesbrecht et al. 2006: 311), and there is the possibility that changes to the LCBO could be partly responsible for such a shift, although isolating this one variable and making a causative relationship would be difficult to establish.

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