Abstract

This paper examines the merits of state control versus private provision of spirits retail, using the 2012 deregulation of liquor sales in Washington state as an event study. This is the first shift from a public to a private system for spirits sales in the United States since Prohibition. We document effects along a number of dimensions: prices, product variety, convenience, substitution to other goods, state revenue, and consumption externalities. We estimate a demand system to evaluate the net effect of privatization on consumer welfare. Our findings suggest that deregulation harmed the median Washingtonian, even though residents voted in favor of deregulation by a 16% margin. Further, we find that vote shares for the deregulation initiative do not reflect welfare gains at the ZIP code level. We discuss implications of our findings for the efficacy of direct democracy as a policy tool.