VIEWPOINT
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State Pours Interference on Liquor Business

By Michael LaFaive

Summary

State government should abandon its archaic, over-priced system of controlling the supply chain for all liquor sold in Michigan.

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Most residents would be surprised to learn that under the current system, the state buys all the liquor, or "spirits," distributed in Michigan. Our government, via the Liquor Control Commission, slaps its own price mark-up on liquor before imposing an array of taxes and price controls, effectively protecting the state distribution monopoly.

Residents should insist that the Michigan Legislature take a hard look at the costly and cumbersome system it has protected for decades, in large part because of the excessive political influence of a small handful of individuals who profit from the status quo.

No one would design such a system from scratch today. It was conceived in 1933 out of a perceived need to maintain government control over alcohol sale and consumption following the repeal of Prohibition. State government made itself the sole wholesale agent for all liquor sales in the state. (It very nearly became the exclusive retail agent too, and to this day sharply limits competition through a quota system for merchants licensed to sell spirits.)

The arrangement was based on a belief that such direct government involvement would protect public health and safety, among other things preventing the distribution of adulterated products like "bathtub gin" from the remaining Prohibition bootleggers and gangsters. The system also appealed to prohibitionists who still wanted to limit access to the newly re-legalized liquor.

In a recent video, Mackinac Center investigative reporter Kathy Hoekstra looks at how the Liquor Control Commission hurts Michigan's entrepreneurs in the craft beer industry. Watch the video at www.mackinac.org/15200.

Nearly 80 years later the bathtub gin has disappeared, but Michigan's LCC is still buying and supplying all the liquor consumed in the state, making ours one of 18 so-called "control" states with similar setups. Nevertheless, proponents of this system still argue that direct government control prevents an array of imaginary tragedies.

Modern scholarship seems to suggest otherwise. To cite one example, a July 2010 paper from the Virginia Institute for Public Policy found no statistically significant difference in binge-related drinking, drunk driving fatalities and total alcohol-related deaths between the 18 control states and other "open" (free) states.

In addition, the state isn't just a direct player in the distribution operation; it also mandates minimum shelf prices, under which stores may not sell their products. For example, I inspected prices on June 3 at

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the Meijer in Coldwater, Mich., (near the Indiana border), and found that half gallons of Smirnoff vodka, Crown Royal whiskey and Captain Morgan rum sell for $23.96, $53.98 and $26.99, respectively. Twenty minutes south, the same products were available at the Meijer store in Angola, Ind., for $18.49, $47.49 and $21.99, respectively. In other words, Michigan consumers were paying in excess of 20 percent more for the same products. The lower costs in Indiana are probably directly related to it being a free state.

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The higher prices in Michigan entail a 65 percent price markup the state imposes to ensure its own profit. It then discounts the liquor to retailer licensees by 17 percent so they, too, can make a profit. Through Sept. 30, 2010, the LCC's net income exceeded $333 million for fiscal 2010. Some of this revenue is generated by license and inspection fees, fines and taxes. The money goes to the state School Aid Fund, the General Fund, convention facilities and the "Liquor Purchase Revolving Fund," which pays for the LCC's own operations.

Many will correctly observe that this amounts to a "sin tax" on liquor. They're right, but taxpayers and consumers are still being shortchanged by a system that prevents the savings that could be realized by a modern, competitive private-sector supply chain distribution system. Those savings could either be returned to consumers, taxed to provide government services, or some of each.

In other words, this direct government "control" isn't just an archaic relic; it's an expensive middleman that imposes a deadweight loss on both the state's people and government. The state should get out of the distribution of spirits and leave it to the private sector.

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Michael D. LaFaive is director of the Morey Fiscal Policy Initiative at the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Mich.

Please contact:
MICHAEL D. JAHR
Vice President for Communications
140 West Main Street
P.O. Box 568
Midland, Mich. 48640

Phone: 989-631-0900
Fax: 989-631-0964
Jahr@mackinac.org

www.mackinac.org