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Five Questions for New Liquor Advisory Committee

By Michael LaFaive

Summary

The state is about to start another review of the rules and regulations regarding alcohol distribution and sales in Michigan. It is time to reshape the law so it benefits consumers rather than the state treasury and the select few wholesalers who have access to the monopoly.

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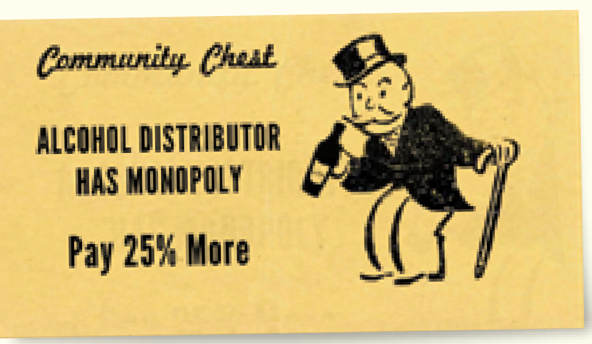
Gov. Rick Snyder recently appointed two new members to the five-person Michigan Liquor Control Commission, and the Department of Licensing and Regulatory Affairs announced the creation of a new committee to review existing wine, beer and liquor market rules. Both bodies should place consumer interests ahead of state government interests and those of the 60-plus beer and wine wholesalers and distributors who dot the state with their territorial monopolies.

For the uninitiated, Michigan is one of 18 so-called "control" states in which the government is the initial buyer of all of the hard liquor consumed in the state. This state then tacks on a 65 percent markup, plus several taxes. The markup becomes a mandated minimum price, below which stores are prohibited from selling their wares.

In contrast, the state does not initially purchase all the beer and wine consumed here. Instead, it forces brewers, vintners or their national distributors to enter into exclusive contracts with a particular wholesaler/distributor, who then has a regional monopoly on that producer's product. This almost certainly forces the state's beer and wine drinkers to pay more.

How much more? An April New York Times guest editorial by wine writer David White suggested that consumers may pay 18 percent to 25 percent more as a result of wholesaler activities.



Given what may be an opportunity to reform alcohol-related regulations in the Great Lake State, the Mackinac Center has some questions for the new advisory committee and LCC commissioners:

1. Why did the Liquor Control Commission (and to a degree the Michigan Legislature) largely ignore reform recommendations made by its own "Customer Advisory Committee" report on liquor licensing in 2005?

This committee recommended 10 substantial reforms designed to reduce the time it took for the LCC to decide licensing matters, but the ideas were not fully embraced. The committee had hoped to see the licensing process reduced to 90 days and to "strive to further reduce that licensing time to 60 days or less." This was at least the third such streamlining attempt since 1979, according to the report. LARA's new commission should start their investigation by reading the 2005 advisory committee's report.

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2. Why does the state feel compelled to retain its role as primary state liquor wholesaler almost eight decades after the end of Prohibition?

Only 18 states today act as liquor wholesaler. The old "health and safety" rationales are belied by growing evidence that at worst there is no statistically significant safety difference between liquor control states and free or "license" states.

3. Why is the state in the price control business?

Michigan imposes a minimum shelf price for hard liquor that limits potential savings for consumers and the state economy as a whole. If the goal is to discourage consumption by jacking up prices, then the state should apply a straightforward excise tax and otherwise let competition reward sellers who provide better value. If the goal is just to inhibit competition, then it should end the practice.

4. Why does the state limit price changes that can be made to beer and wine?

By law, monopoly beer wholesalers who want to cut prices in their territory must jump through regulatory hoops and then wait 180 days. Wholesalers must also seek permission to change wine prices outside of a system of regular quarterly price updates submitted to the LCC. These examples of regulatory overkill impose additional costs on consumers.

5. Why does the state limit wine shipments directly to consumers?

In 2005, the U.S. Supreme Court ruled as unconstitutional state laws that allowed in-state delivery of wine directly from wineries to consumers but prohibited the same commercial activities from out-of-state suppliers. Michigan ultimately amended its Liquor Control Code in 2009 to permit out-of-state shipments, but only through state-approved suppliers, thus limiting purchase options for adult consumers.

With the state set for what could be its fourth major review of Liquor Control Commission policies and procedures since 1979, it is high time someone looked at this system from the perspective of the individual consumer. For too long Michigan government has interfered to an unnecessary degree in the choices of grown adults and the legal products many choose to consume. This could be an unprecedented opportunity to normalize relations between the state — and those who benefit from its regulatory privileges — and Michigan consumers.

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Michael 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