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THE FINAL WORD

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Illustration by  
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# UNLOCK STATE'S LIQUOR LAWS

## Reforming Mich.'s alcohol rules should lower prices

BY MICHAEL LAFAlVE AND TODD NESBIT

The recent release of Ken Burns' "Prohibition" documentary has raised many good questions about the subject of alcohol control. For Michigan, the questions are timely.

Gov. Rick Snyder's 21-member Liquor Control Advisory Rules Committee will soon present its ideas for alcohol control reform, and would be wise to think and act boldly.

Michigan's laws and rules governing alcohol control have been treated like the playthings of politicians and powerful special interests for decades. These neo-prohibitionists are not as concerned about public safety as they would have you believe; they are actually protectionist in many ways, treating different businesses and people unfairly. They may also increase the price of consumption 3 percent to 7.8 percent, depending on the product.

To better measure the relative degree to which Michigan regulates alcohol consumption, the Mackinac Center for Public Policy collected state control codes from all 50 states and counted their word lengths. Code verbosity may reflect the degree to which government "controls" alcohol and ultimately affects prices and safety. Michigan's code is second longest in the Midwest at 74,000 words.

We then constructed a statistical model that took into account the prices of the top five liquors as determined by sales volume and a representative six pack of beer in 25 Metropolitan Statistical Areas scattered throughout 18 states and the District of Columbia. The model also included code lengths and whether or not the metropolitan area is in a "control" state.

Michigan is among such states that buy nearly every drop of hard liquor legally consumed in the state before it is passed on to retailers. The model also controlled for other variables that may influence prices, such as a state's proportion of population that are moderate or heavy drinkers.

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# Liquor

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We found that prices of the liquor in our model were 3 percent higher in control states. Perhaps more interesting, we found that a 10 percent increase in the length of a liquor control code was associated with a 10.4 percent increase in price. We also found that beer prices in control states are 7.8 percent higher than in non-control states. A 10 percent increase in code length was associated with a 3.2 percent increase in price.

Our data set for spirituous liquor included Absolute and Smirnoff vodkas, Bacardi Superior and Captain Morgan rums and Jack Daniels whiskey; our source for this price data, The Beverage Information Group, conducted quarterly surveys of 25 Metropolitan Statistical Areas across the nation from 1995 through 2009, limiting our analysis to those MSAs and years. Our data for the price of beer was obtained from the American Chamber of Commerce Research Association, which reports the average price of a representative six-pack of 12-ounce Heineken. Wine was not included in our analysis due to the difficulty in obtaining a consistent dataset.

## Key differences

It must be noted that our statistical output likely shows understated price differentials because law length may be a crude proxy for control. Indiana's code, for example, has almost 24 percent more words than Michigan's, but unlike Michigan it does not impose minimum selling prices, allowing for greater competition.

There are key differences between Michigan and Wisconsin, too. The Badger state doesn't act as liquor wholesaler and its alcohol code does not mandate that suppliers of wine grant territorial monopolies to anyone.

In Michigan, the state mandates that a few, privileged wholesalers be given monopoly sales territories for beer and wine.



John T. Grelick / The Detroit News

Excessive regulations restrict options for Nash Kannou, manager of Forest Liquor in Detroit, to sell liquor.

## Not any safer here

If these higher prices actually bought greater public safety, then perhaps neo-prohibitionists would have an argument for maintaining the status quo. The research, however, suggests otherwise.

In a working paper titled, "Does State Monopolization of Alcohol Markets Save Lives?" economists John Pulito and Anthony Davies examine control states and license states from 1982 to 2002. They found that states with a lighter regulatory touch — license states, for instance — "generally experience lower alcohol-related traffic fatalities."

Theirs is not the only work to show that greater regulation does not necessarily equal more and better public safety.

## Suggested reforms

Fortunately, Michigan residents may not need to tolerate the high price and questionable safety provisions of our alcohol code much longer. The Snyder administration's advisory committee is expected to present recommendations for reform by Dec. 22. The [Mackinac Center](#) recently provided the committee a list of 15 substantial reform ideas, some of which include:

- Repeal of state mandates

that force suppliers to grant territorial monopolies to Michigan's beer and wine wholesalers. The law is unfair to consumers, suppliers and retailers, and an embarrassment of riches to just a handful of lucky distributors. Make supplier-wholesaler relations voluntary instead of coerced, allowing competition to flourish.

- Eliminate the "post and hold rule" in the state's Administrative Code that forces manufacturers and wholesalers of beer and wine to publish product price changes in advance and hold them in place for some length of time. One study suggests post and hold rules increase the cost of alcohol products between 8 and 30 percent.

- Eliminate the "Specially Designated Distributor" license quota. This law works to the advantage of Michigan's beer and wine wholesalers in two ways. It distorts consumption opportunities by making beer and wine more available than liquor, increasing the cost of accessing it, leading consumers to buy more beer and wine for preferred spirits.

- Eliminate the restriction on the amount of spirits, beer and wine an on-premise licensee (a bar, for example) can purchase from a retailer each month. For liquor, the monthly

limit is 9 liters. For beer and wine the limit is zero. This restriction benefits Michigan's beer and wine wholesalers.

- Eliminate the state's role as liquor wholesaler and the associated price controls. The state unnecessarily acts as hard liquor wholesaler and mandates minimum shelf prices. This drives up costs of liquor and prevents price competition, to the benefit of Michigan's beer and wine wholesalers.

- Eliminate legal prohibitions against direct and indirect interest (such as ownership) in the supplier-wholesaler-retailer tiers. Preventing a winemaker from also having an interest in an off-site retail establishment that sells alcohol is an archaic prohibition.

The Michigan Liquor Control Code unnecessarily increases the cost of both doing business in and consuming alcohol. Significant parts of the code are promoted as a means of protecting public safety, but overall the code seems more geared toward protecting the alcohol profits of the state and a few chosen wholesalers.

Reforms advanced by the Snyder administration should be bold and strip away the monopolist, regulatory privileges now accorded to the state and private-sector wholesalers.