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Liquored Up: Michigan Government Should Exit Its Liquor Wholesale Business

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Summary

Michigan's role as wholesaler for all hard liquor sold in the state drives up costs for consumers, but provides no discernable public safety advantages.

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Michigan is one of 18 states in which the state government itself is the statewide wholesaler for all hard liquor (or "spirits") sold to consumers by retailers, bars and restaurants. Anecdotal and empirical evidence indicates that this arrangement unnecessarily drives up costs, while providing no public safety advantages. State lawmakers should end Michigan's status as a so-called "liquor control" state and eliminate or shrink the 152-employee Michigan Liquor Control Commission.

As wholesaler, the state is in a unique position to drive up the cost of liquor. The Michigan Liquor Control Commission tacks on a 65 percent mark-up on every bottle sold, plus four separate taxes earmarked for various purposes. The state also imposes a 6 percent retail sales tax. Adding insult to injury, Michigan then artificially restricts competition between retailers by imposing a price control floor, below which stores may not sell.

Mackinac Center analysts have examined how all this impacts the retail price of Scotch whisky. We collected data on the price of J&B Scotch Whisky for all 50 states between 1995 and 2004 from the ACCRA Cost of Living Index and constructed a statistical model that controlled for such things as prices for alternative products; the proportion of the population who are moderate or heavy drinkers; demographics, including age, gender and race; employment in manufacturing; employment in the leisure and hospitality industry; the unemployment rate; and the extent to which each state controls the distribution of liquor.

The results show that a fifth of J&B is, on average, $1.59 more expensive in liquor control states than in noncontrol (so-called "license") states, or 6.3 percent higher. We further categorized "control" states as either light, moderate or heavy, depending on their regulations. The price of scotch in light control states, which includes Michigan because the state does not have a retail monopoly, is $0.94 higher than in noncontrol states. Consumers in "moderate" control states pay $1.72 more, and $2.26 more in "heavy" control states.

We found similar anecdotal evidence. On Aug. 10, we looked at liquor prices in Meijer stores in South Bend, Ind., and Kalamazoo, Mich. Most products were less expensive south of the Michigan border, some by a large margin. Of the 11 liquors in 750 ml bottles we examined, eight were less

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Liquor price comparison: Michigan VS. Indiana

Liquor 750mL	MI	IN	Price Difference
Captain Morgan	14.98	16.99	88.2%
Bailey's	23.96	18.99	126.2%
Absolut	18.97	16.99	111.7%
Jack Daniels	22.95	24.99	91.8%
Crown	24.95	22.99	108.5%
Canada Mist	9.96	8.49	117.3%
Johnny Walker Black	36.95	26.99	136.9%
Tanqueray	19.97	16.99	117.5%
Grey Goose	29.99	26.99	111.1%
Sky	14.98	14.99	99.9%
Jose Cuervo	19.97	16.49	121.1%

Liquor 1.75 L	MI	IN	Price Difference
Captain Morgan	24.95	23.99	104.0%
Bailey's	43.93	43.99	99.9%
Absolut	39.95	34.99	114.2%
Jack Daniels	44.95	44.99	99.9%
Crown	53.98	44.99	121.3%
Canada Mist	22.95	17.99	127.6%
Johnny Walker Black	?	71.49	
Tanqueray	42.98	36.97	116.3%
Grey Goose	64.95	49.99	129.9%
Sky	29.99	25.99	115.4%
Jose Cuervo	36.95	34.99	105.6%

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expensive in the Hoosier state. Out of 10 types in half-gallon containers, eight were cheaper in Indiana.

For example, a fifth of Johnny Walker Black cost almost 37 percent less in Indiana. Of the very few products that cost less in Michigan, the largest price savings was 12 percent.

Supposedly, the regulatory regime responsible for these higher prices makes Michigan safer. But empirical evidence suggests this is a myth.

A 2010 study titled "Impaired Judgment: The Failure of Control States to Reduce Alcohol-Related Problems" by economists Don Boudreaux and Julia Williams found no statistically significant difference between control and license states in binge drinking, alcohol-related traffic fatalities or alcohol-related deaths overall.

The control state concept was born in 1933 after the end of Prohibition, in part due to teetotaler's fears that bootleggers would smuggle in illegal or adulterated products. Yet ironically, Michigan still has a smuggling problem — in part because of policy-induced price differentials with other states.

The LCC itself estimated that alcohol smuggling costs Michigan around $14 million annually in lost mark-up and tax revenues. It also report that distributors' trucks have been hijacked and that least one driver was shot in the process. Previous Mackinac Center reports show similar consequences from artificially driving up cigarette prices with high state excise taxes.

While the focus of our research has been on liquor, provisions of Michigan's law also drive up beer and wine costs, both for producers and consumers. Notoriously, the state grants exclusive sales territories to beer and wine wholesalers and encourages anti-consumer collusion between them with bureaucratic "post-and-hold" restrictions on price changes. A 2010 study estimates that such restrictions nationwide increase beer prices as much as 30 percent and wine prices as much by as 18 percent.

Michigan should end its role as liquor wholesaler, and strip state-mandated, unfair beer and wine wholesale monopolies from the law. High prices that do not benefit consumers show that liquor and legislation do not mix.

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