MICHIGAN'S LIQUOR DISTRIBUTION SYSTEMS: AN HISTORICAL REVIEW AND ANALYSIS

John C. Taylor
Wayne State University

ABSTRACT

This paper reviews the history of Michigan's liquor distribution systems. The paper focuses on the legislative history and special interest forces which led to the current system. The paper concludes with an analysis of the key factors which have led to Michigan's unique public wholesale and private retail spirits distribution system.

INTRODUCTION

Michigan's liquor marketing and physical distribution system for spirits is unique among the 50 states. The state's spirits distribution system is the only one in the country where retail package sales are conducted exclusively by the private sector, while wholesale purchasing and distribution operations are maintained as a state monopoly. At the same time, Michigan's beer and wine distribution system is privately owned and operated at both the retail and wholesale level. Sixteen other states operate their state's wholesale and retail spirit's distribution systems, but none of those allow private retail package liquor spirits sales as is the case in Michigan.

The distribution of alcoholic beverages in Michigan is accomplished through one of two systems. Beer and wine (under 21% alcohol by volume) moves from breweries and wineries through a network of licensed private wholesalers, retailers, bars, and restaurants. The state taxes these sales in order to generate revenues to the state.

Distilled "spirits" (over 21% alcohol by volume) on the other hand, are exclusively purchased by the state and resold to private package liquor and off-premise consumption licensees. The state maintains a network of three large, first-tier warehouses and 76 second tier warehouses for storage and physical distribution of distilled spirits to licensees. Both package spirits retailers (SDD licensees) and on-premise bars, restaurants, and hotels buy their spirits from one of the 76 state mini-warehouse "stores" and either pick up the product or have it delivered to them. Licensees are not allowed to buy from each other, and the state requires a uniform price around the state. The state generates its revenues from profits on the wholesale operation, from taxes on the distilled spirits sales, and from licensing of on and off-premise licensees. While the 76 mini-warehouse "stores" also sold to the public over the counter until recently, there sole function is now to serve as a wholesale inventory and sales point for private licensee purchases.

The current system has evolved considerably from the approach which was originally intended by the legislature in 1933 following Repeal. The original system assumed that most if not all package spirits sales would be made by the current mini-warehouses, or "stores" as they were originally called. However, the final liquor spirits Repeal bill allowed for experimentation with private retail outlets and this form of outlet soon dominated the system. By the 1940s the "store" warehouse's retail sales had dropped to minor levels and the main function became one of serving as a wholesale intermediary for both package spirits retailers and bars/restaurants. In the late 1980s the state quit selling package liquor to consumers through the "stores."

This paper examines Michigan's early liquor distribution system and the regulation of that system, reviews the history of the state's prohibition and post-prohibition eras, and also reviews the various efforts to reform the distribution system which have occurred from the 1940s to the present. The review of the prohibition and post-prohibition eras focuses on the legislative and regulatory history which led to creation of the current system. These sections also examine the special interests and forces which influenced creation of the original system, and the factors which led to changes in the system. Finally, the analysis section of the paper attempts to identify the key reasons for creation of the original and current systems.

EARLY LIQUOR CONTROL EFFORTS

The control of the liquor traffic has been an issue in Michigan since the earliest contacts between whites and Indians. Sumptuary laws, or rules designed to inhibit specified consumption practices (Hollander 1984), have played a role in that control almost from the beginning. It is the sumptuary nature of the control mechanisms that make a study of this particular industry so interesting. These sumptuary controls have been enforced both through restrictions on consumers and through licensing of private suppliers and/or a governmental takeover of the distribution function.

Legislative Control

During the Pre-Prohibition era a number of control mechanisms were used by Michigan and other governmental entities. These included everything from restriction of individual consumption, to licensing with and without taxation, to local option, to government monopoly, and eventually state Prohibition (Grant 1932). In Michigan, one of the first control efforts came during the territorial period when an 1805 "liquor law" required that a license be issued for any place dispensing liquor (Fuller 1939). By 1845 the concept of local option had been adopted for use at the municipal level and by 1850 vague references to a prohibition on the issuance of licenses was included in the new Constitution. By the mid 1870s, various laws had been enacted imposing license fees of one form or another. For instance, in 1890 an annual tax of $500 was imposed on wholesalers or retailers (Commissioner of Labor 1897).

The first statewide prohibition vote occurred in 1887 and failed by a narrow margin. In 1889 however, a "county option" law was upheld. The County of Van Buren was the first dry entity in Michigan, and while several others joined the dry column in succeeding years, only Van Buren remained dry by 1907. However, in just two years the Anti-Saloon League, a dry lobbying organization, had become well established and the number of dry counties increased to 11 by 1909. By 1917 there were 45 dry counties. This dry sentiment was reflected in the successful balloting for a statewide prohibition voted to take effect in 1918.

Channels of Distribution and Their Regulation

Prior to this early Prohibition Michigan's liquor distribution system was completely private. The earliest statistics available on the number of private dealers in Michigan were those gathered by the Commissioner of Internal Revenue and reported by the Commissioner of Labor (1897). These figures indicate there were a total of 4,791 dealer establishments at the time.

Little is known of Michigan wholesalers during this period, however it is likely that their attitudes were similar to those voiced by the National Wholesale Liquor Dealers Association (Stauber 1908). This group adopted a strongly worded convention platform in favor of modest saloon regulation and in opposition to Prohibition and confiscation of property. Indeed the "old time saloons" had become as numerous in Michigan as elsewhere. For instance, one author reported that "in Lansing, over 40 saloons operated near the Capitol building at the turn of the century" (Engelmann 1977).

Numerous efforts were made to provide saloon substitutes, to ban saloons, and to eliminate them from politics. In Battle Creek, the Women's Christian Temperance League (WCTL) provided free "coffee rooms" in an ill-fated attempt to coax the city's firefighters from the saloon (Engelmann 1977). While in Grand Rapids, the electorate banned saloons only to find the emergence of "grocers" dispensing liquor (Engelmann 1977). In many cases it was quite clear that saloons were politically protected, for they simply ignored prohibitions or orders to close.

During this period the liquor distribution channels were taken over by the large liquor interests. This dominance took the form of both vertical and horizontal integration (Works Progress Administration 1941). By 1909, 70% of the saloons in America were owned by brewers. In Michigan, the Detroit brewers rapidly became the dominant state force. The greater efficiency of the large brewers was in part responsible, "but they were also the beneficiary of the local option laws" according to Engelmann (1977). These laws outlawed in-county production but allowed importation for home consumption. Coupled with the development of bottled beer in the 1890s this led to rapid gains for the Detroit brewers. It also drove a wedge between outstate and Detroit brewers and prevented a strong state association which might have helped significantly in bringing order to the Michigan saloon business. This lack of a strong association also gave the Prohibitionists a free hand at creating the soon to come State Prohibition.

PROHIBITION ERA

The temperance movement reached its culmination in Michigan on November 6, 1916 when a slim majority of voters approved a statewide Prohibition amendment to the State Constitution. On May 1, 1918 a total of 3,285 saloons, 62 breweries, 2 distillers, and an unknown number of wholesalers were closed. A proposal to modify the state Prohibition to allow beer and wine was made in April 1919 following return of the war veterans but was defeated by over 200,000 votes (Fuller 1939).

The national Prohibition effort followed the Michigan effort by several years. The U.S. Senate passed the Resolution on the 18th Amendment on August 1, 1917 and the Congress followed on December 19, 1917. The Michigan Legislature ratified the 18th almost unanimously on January 2, 1919 and the Amendment was Declared on January 29, 1919 with an effective date of January 16, 1920.

The Prohibition era, and the special enforcement problems Michigan faced by virtue of its border location, provides a number of insights into the eventual form of distribution Michigan chose following the eventual Repeal of prohibition. In reviewing the Prohibition era attention will be focused on some of the factors that influenced Michigan's eventual choice of a post-Prohibition distribution system.

Enforcement Acts

With the passing of state Prohibition Michigan was immediately faced with the prospect of enforcement. On May 10, 1917 Michigan Act 338 of 1917 became effective (Act No. 338, Michigan Public Acts 1917) and entrusted enforcement to all officers of state and local government. Act 319 of 1919 gave the Food and Drug Commissioners, M. Fredrick and L. Woodworth, the power of a sheriff in enforcing the liquor laws (Elser 1919). This was modified in 1921 to place the enforcement with the Department of Public Safety. Interestingly, the state enforcement law in Michigan banned all advertising unlike many of the other states. In addition, Michigan allowed search and seizure as did most of the other states but did not allow confiscation of cars (Elser 1919). However, while some states banned all medicinal sales, Michigan was one of those allowing an elaborate set of exemptions and permits for industrial, medicinal, and pharmaceutical purposes (Brown 1932). As we shall see this turned out to be one of the main approaches to subverting enforcement. The exemption also formed the basis for a post-Repeal interest in allowing druggists to serve as a private exception to the state's desire for a publicly owned distribution system.

Michigan Attitudes Toward Prohibition

From the beginning, the attitudes towards Prohibition were mixed. On the one hand were views such as the following, rather self serving one by Mr. R.H. Scott, Vice President and General Manager of the Reo Motor Car Co. of Lansing, Michigan. Mr. Scott was reported to be opposed to liquor traffic in general, because "under the open saloon plan, large numbers of our employees were absent for several days causing great disruption." (Tomkins 1923). Comments such as these point to possible economic interests in Prohibition and the likelihood that the upper classes viewed Prohibition as a class-oriented set of sumptuary legislation. At the same time however, there was massive support for the social value of temperance on both a national and state level.

Despite the considerable desire for enforcement, consumption was evident everywhere. Detroit was reputed to conceal 15,000 "blind pigs." Even Grand Rapids, in the conservative west of the state, was said to have "lots of drinking in hidden places although no open saloons are to be found" (Mandeville 1925).

Illegal Distribution

Generally there were four primary sources of illegal liquor. These were 1) smuggled liquor from abroad, 2) industrial alcohol diverted into bootleg channels, 3) liquor which was stolen or obtained by fraudulent permit and 4) moonshine liquor (Reynor 1925). For purposes of this paper two of these sources will be briefly reviewed and they are 1) smuggling from Canada and 2) diversion from bonded warehouses. These two sources are reviewed because Michigan's problems with these two sources of liquor seemed to have a strong impact on the state's desire to enact a public distribution system following Repeal.

The extent of bootlegging from Canada and the impact on future Michigan control deliberations is the essential question. Michigan's location on the Canadian border made it one of the key distribution gateways for illegal liquor entering the country. For instance, Kennedy (1928) reports that up to $500,000 per week was being imported between Wyandotte and Port Huron. There were frequent newspaper accounts of ships loading for oversees ports, only to return the next day, with empty holds. The extent of the distribution network was revealed in a quote by Prohibition Commissioner James M. Doran when he told a U.S. House Committee in 1928 that "Seven-eighths of smuggled liquor comes through what we call the Detroit gateway." (The Literary Digest 1928). The linkage of this entry point with the distribution point of Chicago is pointed out by a reference to "Chicago racketeers touring the Detroit River and looking over the prospects for a scoop" (Collier's 1928). Further evidence of the distribution channels emanating from Detroit was provided in a reference to Grand Rapids obtaining its liquor through a network which ran from "Detroit to Milwaukee and then from Milwaukee to Grand Rapids" (The Outlook 1925). These illegal smuggling activities, which were much more pronounced in Michigan than in other states, may have caused considerable concern about the ability to police private wholesalers in the future.

The second illegal source of interest is the pharmaceutical one given the prominent role played by druggists following Repeal. It is interesting to note that wholesale druggists could go into business and sell nothing but "medicinal" whiskey at the beginning of Prohibition, simply by purchasing $10,000 of drug stocks. In latter years this loophole was tightened considerably; however illegal diversions from druggist inventories remained numerous. Retail pharmacists were able to dispense liquor by taking out a Retail Liquor Dealers license and by obtaining an H or I license from the Prohibition Bureau. The latter allowed the sale of whisky, brandy, gin, etc. for medicinal purposes without rendering them unfit for beverage purposes (Hunsberger 1923). These sales required the purchaser to have a valid "medical prescription." As Michigan law also allowed these exceptions, a similar set of licenses was required from state officials. Obviously this was a large source of bootleg liquor but the druggist's role in the subversion was not sufficient to cause any great alarm when private package liquor licenses for druggists were debated after Repeal.

REPEAL AND POST-PROHIBITION ERA

The following sections examine the Repeal movement and its legislative history, the early operation of the Michigan system, and some of the forces which influenced the choice of Michigan's public system for spirits and private system for beer and wine.

Legislative History

During the late 20s and early 30s considerable sentiment began building for Repeal. Problems with enforcement, a genuine demand for return to state's rights, and the Depression all played a role in the mounting pressure. In January, 1931 the Wickershorn Commission reported that enforcement had not been successful; however President Hoover vowed to continue the fight. In 1932, the Michigan Democratic Party came out strongly for Repeal and proposed the "Red, White, and Blue Amendment" to the state's constitutional Prohibition. This amendment passed 1,022,508 to 475,265 and nullified the state enforcement program (Fuller 1939). Earlier that year, on June 27, the Republican National Convention adopted a plank supporting states rights on the Prohibition issue thereby bringing them into line with the prevailing Democratic view.

In quick succession, on February 16 and 20, the U.S. Senate and House passed Repeal Resolutions for consideration by the states. In an important legislative tactic they voted to place the issue before a convention of the citizens of each state rather than before the potentially hostile legislatures of some states (Review of Reviews 1932). It should be noted that in November of 1932, Franklin Delano Roosevelt, an avowed wet, won office and was sworn in on January 20, 1933.

Early in 1933, Congress passed a bill authorizing 3.2% beer and Michigan's Democratic Governor Comstock seized on this to seek passage of a similar bill in Michigan. The bill also served as a vehicle for the introduction of a state control board to be known as the Michigan Liquor Control Commission (MLCC).

At the same time, the Michigan State Convention on Ratification of the 21st Amendment to the U.S. Constitution had been organized. Members to this Convention were selected at special elections on April 3, 1933 as provided for in Act 27 of the Regular Sessions of 1933. One delegate was selected from each Congressional district in the State. On April 10, 1933 the delegates met and passed the Resolution 99 to 1. Only Mr. Dorenfort, of Barry County, voted against. Senator Heidkamp, who had introduced legislation allowing for the Convention, addressed the Convention and urged passage of the Beer and Wine Bill (Michigan Convention Record 1933). Governor Comstock (1933) also urged passage of this bill but urged caution given the eyes of the other states which would still be voting on the U. S. Repeal. Michigan thus became the first state to ratify Repeal.

Following the State Convention, the legislature returned to the task of settling the "beer bill" or Senate Bill #150. This bill became Enrolled Act #64 on April 27, 1933 and established a 17 member Liquor Control Commission. Interestingly, the first Chairman was Leo J. Wilkowski, brother of Senator Wilkowski, Chair of the Senate Committee on Prohibition. The Act provided for the sale of beer and wine through private wholesalers, retail stores, and bars. The Act, along with Act #84 specifically allowed for the sale of beer by the "chains" (Journal of the House 1933). The Michigan State Digest (1933) had in a failing effort, editorialized that "the fruit of 3.2 beer should be borne by the 'local merchants', and not by the rich chains."

The passing of this separate beer and wine bill is very significant in that it established a private beer and wine distribution system before the "spirits" system could be fully devised and resulted in a permanent fixture of private enterprise. This distribution channel can later be compared to the monopoly system devised for "spirits."

During succeeding months a Legislative Council Sub-committee on Liquor Traffic was established to develop a plan for "spirits" distribution and control. At the same, time passage of the 21st Amendment Resolution by the states was proceeding at a rapid pace and on December 5, 1933 Utah passed Repeal and became the last state required to complete ratification.

The Legislative Council, prior to the calling of a Special Legislative Session, considered the various plans for control. Several points of contention arose, including ones over local option for on-premise consumption, a system of state stores vs. private outlets, and the size of the Commission. While an exhaustive search has not produced a copy of the Sub-committee report, an original set of minutes to the Council's 1933 sessions has been found in the Michigan Historical Collection archives of Speaker of the House Martin Bradley. So far as is known this is the only copy of those minutes (Bradley 1933).

The minutes, along with explanations of votes on the Senate and House floor, indicate a major concern with the issue of private vs. state operation of the system. While the final outcome included a compromise allowing for up to 110 state stores and an unlimited number of specially designated distributors (or agents of the MLCC), the system was in its essence a state monopoly at the wholesale level with every intention of a near monopoly at the retail off-premises level. Mr. Holbeck of the Michigan House stated in his protest that "the state should not go into business in competition with its citizens" (Journal of the House Special Session 1933). He goes on to say that "the actual business, both retail and wholesale, should be carried on by the citizens of the state". Mr. Ban suggests that the state stores are too numerous and that he could understand an experiment but not this number" (Journal of the House Special Session 1933). Mr. Brouwer says there is no indication the state stores will result in increased temperance and also condemns the state going into private business. The newspapers of the day point out that the House version had eliminated the state store provisions but that this had been reinstated by the Senate and that the final conference report as adopted included the state stores (Bright 1933). The final version of Act #8 of the Special Sessions of 1933 allowed one state store in each county with a population under 75,000, and in larger counties, one for each 75,000 of population.

During the Legislative Council debate and Legislative Session, the state's druggists made repeated efforts to promote a plan of exclusive package sales through druggists. Such efforts can be seen in press accounts (Bright 1933) and in memorandum to Speaker Bradley. A review of his files reveals a memo from the Michigan Drug Trade Group urging adoption of this plan (Michigan Historical Collection 1933). In the final bill the druggists efforts paid off in allowing the Commission to appoint any hotel or established merchant to sell alcoholic beverages for off-premises consumption. In fact, the first 600 agents appointed were all druggists. This may have been due to the fact that druggists continued to have the right to dispense "medicinal" liquors in response to valid medical prescriptions. However, the lobbying effort they undertook out of their own self-interest also played a crucial role.

The Act envisioned these specially designated distributors (SDD's) as agents of the state and allowed for them to be paid a maximum of $1200 per anum. The SDD's were a compromise and were included over the strenuous objections of MLCC Chairman Picard. Since the Act only stated the MLCC "may" appoint SDD's it is unclear exactly why they did so.

The final Act passed on December 15, 1933, as Act #8 of the Special Session of 1933. Within 15 days the MLCC had liquor in the state stores. The Act also reduced the Commission to five members and allowed for a local option to provide for on-premise consumption.

Early MLCC Operations

The state opened the first seven state stores on December 30, 1933 and opened an additional 96 stores in 1934. The first 600 SDD outlets were authorized for 1934 (Ackers 1945). The number of state stores remained fairly constant for a number of years. In fact the existing 76 stores are almost all in the original store cities. However, the number of SDD's quickly rose to 1501 by 1941. This trend quickly became a rout and the percentage of retail "spirits" sales through state stores had declined to under 10% by 1942.

By the late 1980s less than 1% of retail sales were made through state stores, and such sales were ended in 1989. Beginning almost immediately in 1934, the state system quickly became a wholesale monopoly, with little physical control of retail sales. The state store's primary function, except during the World War II years, was to serve as the second tier warehouse in the wholesale sales to the SDD's and on-premises businesses. The first tier in the state wholesale monopoly consists of three state warehouses through which all "spirits" brought into Michigan must pass.

The SDD's quickly shed all elements of the state agency fiction, and by 1945 were allowed a 10% discount from the posted retail prices. An interesting result of the state law was found in the MLCC's insistence on allowing only cash sales to licensees despite their monopoly control over the business. Act #8 states that "all sales by state stores and SDD's will be for cash" but was probably meant to restrict credit sales to consumers and not state store sales to SDD's. If this was in fact an oversight it probably occurred on amendment when the words "and SDD's" had to be taken out and added back several times before the final decision on use of SDD's was made.

By 1938, a number of developments had occurred including the hiring of Dr. Thomas, a Wayne State University Professor of Business Administration, as Director of Merchandising. Predictions of 12 inventory turns per year were made, despite a record which never had exceeded 8 turns. A number of statements were made concerning the value of improved turns including benefits such as "decreasing permanent capital tie-up, avoiding the possibility of loss through declining prices and/or obsolete merchandise, and improved economies in storage and handling at state warehouses and stores." (MLCC Press Release 1938). Reference is also made to a "delivery system, saving SDD's in Detroit untold bother and inconvenience." Interestingly, this delivery from store 110 is still in place today but remains the only state store providing mandatory, state contracted delivery. It is unclear why the delivery system was not expanded to include more Detroit licensees.

From the beginning, charges of graft and corruption ran rampant. Numerous news accounts spoke of these charges. The diaries of Commissioner DeFoe (DeFoe 1939) include a number of entries concerning his suspicions of fellow commissioners. Nor was the MLCC, or the state, under any form of "Civil Service" rules until approximately 1945.

In the first year of operations Democrats stacked the staff, as had been predicted during the legislative debate. A bulletin on MLCC letterhead openly suggests that "employees should be willing to contribute to support of the Democratic party" but does allow that "some of the employees are aligned with the Republican party and they are not expected to contribute to the Democrats." Not to be outdone, when the Republicans gained control of the Governorship 85% of the MLCC members were replaced with new staff (Harrison and Laine 1936).

EFFORTS AT REFORM

One of the first efforts to end the state monopoly system was brought by Republican gubernatorial candidate Frank D. Fitzgerald. He characterized the system as a breeding ground for corrupt politics and patronage and urged its abolition. The reference points out that Democrats responded with 350 additional SDD's for Democrats (The State Digest 1934). Fitzgerald served as Governor from 1935 to 1936 but was ousted for one term prior to re-election in 1938 for a term to run from 1939 to 1940. In early 1939 he repeated the call for an end to the state store system but died from a sudden illness in March of 1939 (Fitzgerald 1939).

The period following 1939 contains several efforts to revise the system. During the early 40s a series on the system and problems arising from political interference, the gains of the SDD's, and problems with purchasing was run in The Detroit News. This series suggested keeping the monopoly system (Tendler 1941).

In 1943, an MLCC study group examined the system, partly as a result of war shortages. They concluded that the SDD's were at the root of the problem and should be phased out. The group was headed by Frank Picard, the original proponent of state stores. The group stated that the state should "change the system entirely or work back to the original intent of the Act." The latter meant state stores only. Considerable study was also focused on the Ohio bailment system but this was ruled out as impractical for Michigan (Picard 1943). Under the bailment system the state still buys and resells all spirits liquor from the distiller, however, the inventory in state warehouses belongs to the distiller until the state delivers to licensees. The advantage is that state inventory investments are minimized.

In 1945, a tour of monopoly and open states was conducted to ascertain the benefits of each system. The report concluded there was more political interference in the open states and suggested that the best system depended on the goals. If the goal is to provide a larger supply of liquor than the open system was said to be better. If the goal was "control" then the monopoly system was believed to be better (Lock and Parrish 1945).

In 1947, an effort was made to end the monopoly system and move to a system similar to that used for beer wholesalers. While the Senate passed the bill by Senator Tripp 25 to 4 the House would have no part of it. The plan was not well thought out and was attacked as promoting the self-interests of the sponsor (an SDD holding pharmacist) and, as a bill that would raise liquor prices and/or reduce state revenues. The bill also placed enforcement in State Police hands, and they did not want the authority (Tendler 1947).

More recently, there have been several efforts to either modernize or privatize the wholesale liquor distribution system. The Miliken administration conducted a review in 1980 (Newell 1980). In the late 1980s Democratic Governor Jim Blanchard's Administration considered modernizing the system by eliminating most of the 76 mini-warehouse "stores" and moving to a system of six or seven centralized warehouses from which all spirits would be delivered. His Administration also adopted the bailment system in which spirits in the three large state warehouses remain the property of the distiller. By not taking title until the spirits move to the small mini-warehouses the state was able to eliminate $30 million in inventories.

Following the election of Republican Governor John Engler in 1990 privatization of the system became a major Administration goal. These calls for privatization were followed by the introduction of a Senate bill by Senator Wellborn of Kalamazoo. Senator Wellborn's bill called for turning the wholesale spirits operations over to the beer and wine wholesalers but was not successful. Under this plan the wholesalers would have been taxed at a rate which would have equaled the profits the state made from markups on sales. Thirty-three other states employ this approach for spirits distribution. The remaining states, unlike Michigan, own and operate all spirits retail outlets, and therefore also perform the wholesale function.

Governor Engler's Administration has unveiled a plan which calls for the mini-warehouses to be closed, and for spirits to be warehoused and delivered by six or seven private warehouse operators that would bid for a region. Under this plan the state would continue to buy the spirits and resell it to licensees, but would only take title to the inventory for a short time prior to licensee delivery. All inventory in the private warehouses would belong to distillers under the bailment system, and licensees would be required to take delivery. Delivery charges would be built into the base price of the liquor. This plan would eliminate 400 state jobs and would save the state an estimated $25 million per year in expenses. Because the state would continue to be the seller of spirits, no legislative changes would be required.

ANALYSIS

The following analysis suggests that Michigan's current system was a function of the following factors: 1) Proximity to Canada and familiarity with the Ontario system of monopoly control 2) the dry sentiment present in the state 3) fear of bootleggers still in the area because of Michigan's "gateway" location between Canada and Chicago 4) the influence of druggists, 5) a desire to eliminate private profit and avoid price gouging, and 6) the "marketing reform" era which was present in full force at the time.

The historical record indicates that Michigan considered a number of options for liquor distribution in 1933. The monopoly system which the state eventually adopted was highly touted in "The Rockefeller Study" (Toward Liquor Control 1933), a major book of the time which analyzed liquor distribution options. In addition, at the time, numerous articles appeared on the various Canadian systems and Michigan's Legislative Council was addressed by an Ontario authority (The Detroit News 1933). Other options that were considered included the open systems adopted by 33 states following Repeal. The New York system of strict licensing rules was talked about often (Business Week 1933). Interestingly, each state's system has remained almost static since enactment in 1933, despite many changes in culture, business practice, and law enforcement technique.

It may well be that the Canadian influence was the most important factor in determining the type of control to be used in Michigan. The Ontario plan had been in affect since 1928 and was generally receiving high marks. Coupled with the reputation of Detroit being the "bootlegger's gateway" to the U.S. there was likely some concern that bootleggers would overcome an open, tax stamp system. A second factor was the presence of a number of dry's in the state as reflected by almost 500,000 votes against Repeal of the State Prohibition.

Counterbalancing these pressures were druggists, lobbying for an open system.
The historical review also provides some support for the notion that the "marketing reform" era of the 1930s had substantial impact in creating a climate conducive to state run operations. The considerable rhetoric against middlemen, and "private profit" in distribution, along with claims of waste in distribution must have had some impact (Stuart and Dewhurst 1939). The coming liquor shortage was also believed to be cause for concern about high prices and price gouging by middlemen. The activity reports of the MLCC continually allude to the lower prices possible under the monopoly system despite the avowed goal of temperance promotion. In addition the NRA codes for wholesalers and retailers were being released in October of 1933 and this may have led to a climate which fostered the ultimate in control - a state operated business.

Evidence of the marketing reform period abounds in the liquor legislation. For instance, the Michigan law includes the prohibitions against vertical and horizontal integration (Act #8 of the SS of 1933) that were a part of the marketing reform agenda of the times. Distillers and wholesalers are not allowed to have any interest in retailers in either the beer or spirits industries as a matter of federal law passed at the time.

Regulations also discriminated against out-of-state chains, another hallmark of most reform era legislation. In the area of price controls the Michigan law is similar to the other control states. It is possible that the uniform price rules were preferred by the SDD's given the resale price maintenance problems in New York and flagrant price wars there. Washington D. C. also exemplified the impact of no uniform prices. The discrimination laws also are evident in Michigan legislation. Michigan and Indiana had a vocal war over beer imports in the early 30s and there was a strong desire to reduce price competition (Business Week 1938).

The historical review seems to indicate that the "marketing reform" thinking and legislation of the early 1930s had an impact on the type of distribution system that developed. This is especially apparent in some of the Michigan rules relating to uniform prices.

CONCLUSIONS AND IMPLICATIONS

The historical record can be quite helpful to policymakers evaluating the liquor distribution system. In conducting such an evaluation policymakers need to consider why the existing system was set up, and determine whether the rationale continues to make sense. At the very least the review would seem to indicate that the state settled on a primarily public retail system in 1933 with a supporting state owned wholesale function. Ontario, with its exclusively public retail outlets, and supporting provincial wholesale operations, seems to have been a model that Michigan patterned itself after. It is also clear that by the 1940s the state had moved to a largely private retail operation. Today, the state has no retail sales operations.

The interesting point for anyone considering the performance of the current system is that much of the distribution infrastructure, institutions, and operating policies of the Commission appear to be based on the premise of the original public retail operation. For instance, many of the current state warehouses were initially located and established to perform a retail function. The large number of these facilities, some 80 today, is also based largely on the original retail mission. Various policies established in the 1933 law, such as one requiring all purchases from the state be for cash, also seem more oriented towards the retail function of selling liquor to the public, rather than wholesale operations.

The history of the Michigan liquor distribution system provides interesting insights into the evolution of this marketing channel. The historical analysis also points out the role that special interests played in the legislative debate, and the influence of the broader public interest in "marketing reforms" of the 1930s. Perhaps most importantly, the historical review provides insight into the rationale for the current system, and a base of information which can help modern day analysts better understand the current liquor distribution channel and institutions.

The historical analysis presented here may provide some interesting insights into how historical analysis can be used to improve public policy analysis. By conducting an historical review the analyst can gain valuable insights into the nature of existing policies and systems, and a better understanding of the forces that shaped and may continue to shape the policy in question. The historical review may also point out that the original rationale for a policy no longer exists, or has changed considerably. Such information can be useful in formulating new policy, and in justifying changes.

The analysis also points out some interesting perspectives on the evolution of channel systems. In this case, the channel developed under monopoly-like and bureaucratic conditions, and there are some indications of stagnation and a lack of innovation. The industry provides an interesting opportunity to contrast the development of channels in public vs. private environments because 33 states have private systems, while 17 have public owned monopoly operations. This may present the opportunity for some interesting cross-sectional and longitudinal research designs.

REFERENCES

Ackers, George C. 1945. Michigan Liquor Control Commission Activities, 1933 - 1945, Lansing: State of Michigan.

Act No. 107 (Moral Option), Michigan Public Acts, 1909.

Act No. 213 (Liquor Taxation and Regulation), Michigan Public Acts, 1889.

Act No. 28 (Michigan Repeal Convention), Michigan Public Acts, 1933.

Act No. 319 (Food and Drug Commissioner to Enforce Liquor Laws), Michigan Public Acts, 1919.

Act No. 338 (State Prohibition Enactment), Michigan Public Acts, 1917.

Act No. 54 (Approval of Chain Stores Malt License), Michigan Public Acts, Special Session, 1933.

Act No. 64 (MLCC Creation and Beer and Wine Control), Michigan Public Acts, 1933.

Act No. 8 (Liquor Control System), Michigan Public Acts, Special Session, 1933.

Bradley, Martin R., Legislative Council Minutes for 1933, Speeches, Outgoing and Incoming Correspondence, Press Clippings, Notes of Speaker of the Michigan House of Representatives Bradley, 1930 - 1934. Box No.'s 1 & 2. Michigan Historical Collection, Ann Arbor, Michigan.

Bright, F. E. W. "Observer Favors Liquor Sale by State Agency." Canadian Correspondent: Commentary. The Detroit News, 22 October 1 & 9.

Brown, William G. 1932. "State Cooperation in Enforcement," The Annals of the American Academy of Political and Social Science, 163 (September) 30 -38.

"Chain Store Beer." 1933. Michigan State Digest [Lansing], 4 May 1933: 1.

Commissioner of Labor 1897. Twelfth Annual Report on the Economic Aspects of the Liquor Problem, 1897, Washington: Government Printing Office.

Comstock, William A., Letters, Speeches, Press Clippings of Governor Comstock, 1933 - 1934. Box No.'s 11, 16, 21. Michigan Historical Collection, Ann Arbor, Michigan.

DeFoe, Murl H., Letters, Diary, Press Clippings, Photos of MLCC Commissioner DeFoe, 1939 - 1941. Box No. 2. Michigan Historical Collection, Ann Arbor, Michigan.

"Detroit's Wet-Dry Battle," 1927. The Literary Digest, 95 (November 19) 11.

Dunn, Robert G., Letters, Press Clippings, Speeches of MLCC Commissioner Dunn, 1930 - 1950. Box No. 1. Michigan Historical Collection, Ann Arbor, Michigan.

Elser, Frank B. 1919. "Keeping Detroit on the Water Wagon," The Outlook 121 (April 2) 561 - 562.

Engelmann, Larry 1977. "Old Saloon Days in Michigan," Michigan History 61 (Summer) 99 - 134.

"Fair Trade in Liquor Goes Haywire" 1940. Business Week (September 28), 44 - 45.

"Fitzgerald Wants State Stores to Close." 1939. The Detroit News 6 January 1939.

Fitzgerald, Frank D., Letters, Press Clippings, Speeches of Governor, Secretary of State and MLCC Commissioner Fitzgerald, 1934 - 1939. Box No. 22. Michigan Historical Collection, Ann Arbor, Michigan.

Fuller, George N. 1939. Michigan: A Centennial History of the State and its People, Volume II, Chicago: The Lewis Publishing Company, 326-332.

Grant, Ernest A. 1932 "The Liquor Traffic Before the Eighteenth Amendment," The Annals of the

American Academy of Political and Social Science 163 (Sept.) 1-9.

Harrison and Laine 1936. After Repeal, New York: Harper and Brothers.

Hollander, Stanley C. 1984. "Sumptuary Legislation: Demarketing by Edict." Journal of Macromarketing 4 (Spring) 3-16.

"How to Regulate Liquor: State Monopoly Question is Given National Prominence by Fight in District of Columbia" 1940. Business Week (March 2) 18.

Hunsberger, Ambrose 1923. "The Practice of Pharmacy Under the Volstead Act." The Annals of the American Academy of Political and Social Science 109 (September) 179 - 192.

Journal of the Michigan House of Representatives, Regular Session of 1933.

Journal of the Michigan House of Representatives, Extra Sessions of 1933, 1934, 1933 Session, 85, 117 - 119.

Journal of the Michigan Senate, Extra Sessions of 1933, 1934, 1933 Session.

Journal of the Michigan Senate, Regular Session of 1933.

Kennedy 1928. "And Mix with Fresh Water," Collier's 82 (October 27) 8 - 9, 33 - 34.

Kenyon, Bernie 1925. "The Sources of the Booze Supply," The Outlook 145 (July 15) 401 - 402.

"Liquor Bedlam" 1933. Business Week (December 18) 16 -17.

"The Liquor Merry Go' Round." Michigan State Digest (Lansing) 14 June 1934: 1.

Lock and Parrish 1945. Open and Monopoly Systems of Liquor Control, A Survey, Lansing: State of Michigan.

Mandeville, Ernest W. 1925. "Detroit Sets a Bad Example," The Outlook 141 (April 22) 612 - 613.

Markland, W. A. "Liquor Bill Passes." The Detroit News, 15 December 1933: 1.

Markland, W. A. "State Regains Rum Monopoly." The Detroit News, 24 November 1933: 1 & 4.

Markland, W. A. "Rum Bill Calls for 115 Stores." The Detroit News, 9 December 1933: 2.

McGowan, Donald, "Run Measure Passes House, Goes to Senate: Representatives Approve Bill After Striking Out State Stores." The Detroit News, 23 November 1933.

Michigan Compiled Laws, Annotated, U.S. Constitution, Amendments 18 and 21, St. Paul, MN: West Publishing; 58 - 59, 61 - 62.

Michigan Compiled Laws, Annotated, Amendment to State Constitution of 1908, Article 16, Section 2 (State Prohibition), 1916, 937. Amendment to the State Constitution of 1908, Article 16, Section 11 (State Repeal), 1932; State Constitution of 1963, Article 4, Section 40, 626; St. Paul, MN: West Publishing Company. 1986.

Michigan Convention Record, Ratifying 21st Amendment to the U.S. Constitution (April 10, 1933)

Michigan Liquor Control Commission Press Release, Lansing, July 10, 1938.

"New Liquor Plan Sought: Bill Offered to Abolish State Stores." The Detroit News, 8 January 1941.

Newell, Richard H. "Memo to Thomas F. Schweigert re: Comparison of Liquor Control for Various States." Michigan Department of Commerce, Liquor Control Commission, 16 December 1980.

"No Beer No Resorters (Mich)." Michigan State Digest [Lansing], 30 March 1933: 1.

Picard, Frank A. 1943. Report of the State of Michigan Liquor Study Commission. Lansing: State of Michigan.

Picard, Frank A., Letter, Telegrams, Speeches, Press Clippings of MLCC Commissioner Picard, 1933 - 1937. Box No. 1. Michigan Historical Collection, Ann Arbor, Michigan.

"The Rockefeller Study of Liquor Control" 1933. The Literary Digest 116 (October 28) 10.

Rudow, Carl B. "Gov. Kelly is Wary of 'Open' Liquor Plan." The Detroit News, 28 December 1944, 1 & 4.

"Rum Sale Proposal Made by Druggists." The Detroit News, 25 October 1933: 2.

"The Rum War on the Canadian Border" 1928. The Literary Digest, 99:12 (December 22) 4 - 5.

Stauber, David 1908. "Attitude of the Distillers and Wholesale Liquor Dealers on the Regulation of the Liquor Traffic," The Annals of the American Academy of Political and Social Science, 32 (November) 539 - 544.

Stewart, Paul W. and Dewhurst, J. F. 1939. Does Distribution Cost Too Much?, New York: The Twentieth Century Fund.

Tendler, Louis, "Why Scrap Liquor Control." Series. The Detroit News; 27 April 1947: 1 & 4, 28 April 1947: 1 & 4, 29 April 1947: 1 & 3, 30 April 1947: 1 & 2, 1 May 1947: 1 & 3.

Tendler, Louis, "Why Michigan Liquor Control Has Broken Down." Ten Article Series. The Detroit News; 8 December 1941, 9 December 1941, 10 December 1941, 11 December 1941: 21, 12 December 1941: 27, 15 December 1941: 14, 16 December 1941: 17, 17 December 1941, 18 December 1941: 49.

Tomkins, Rev. Floyd W. 1923). "Prohibition," The Annals of the American Academy of Political and Social Science 109 (September) 15 - 25.

"Truth About Canada's Drink Plan." 1930. The Literary Digest 105 (May 10) 13.

"What's the Matter With Our Liquor Control System." Editorial. The Detroit News, 25 December 1944: 14.

"The Whiskey Rebellion." Editorial. Michigan State Digest [Lansing], 23 November 1933: 1 & 4.

Works Progress Administration (1941), State Liquor Legislation, Washington: Government Printing Office.