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Canadian public policy

# Commentary

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## Liquor, Trade and Politics: Get Ready for a Whole New World

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I would like to outline in my talk the conflicting pressures on the alcohol industry posed by economics on the one hand and politics on the other.

Roughly speaking, economic pressures point toward lowering costs, tearing down trade barriers, increased competition, and consumer choice. The politics point in the other direction: revenue maximisation for governments, protection of existing employment and oversight bureaucracy, and the issues associated with the public health considerations regarding addictive intoxicants, including youth sales.

I will place the relative strengths of each of these forces (politics and economics) within the broader context of a number of larger forces: the Trump presidency and the uncertainty surrounding international trade rules, our own internal trade negotiations, the New Brunswick court challenge to provincial trade barriers in alcohol, and a political setting in which an anxious population reacts badly to threats to any existing employment, including in liquor monopolies. I will finish with some predictions about how a number of these factors will play out. Some will be encouraging to this audience, while others will prove more worrisome.

### History

How did we get where we are today in the way in which people in Canada buy liquor?

As many will know, prior to the First World War, liquor sales were largely unregulated in many places, and prohibited in a few. Public drunkenness was a major health, social, and police issue. A powerful social force,

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the Temperance Movement, grew up urging governments to crack down on alcohol owing to the damage it was doing to families, the workplace, and so forth.

With the onset of the Great War this movement of moral regeneration was given an extra impetus by the need to direct foodstuffs to the war effort and to rein in drunkenness at factories producing war materiel. This resulted in Prohibition in Canada in 1918, including in Quebec, although that province (unlike the others) never showed any interest in banning alcohol sales. In fact, it was one of the defining characteristics of Quebec's distinct society of the day. Quebec was quick to get rid of prohibition once the war ended in 1919. Other provinces followed slowly, led by the Western provinces and Ontario, with the last province-wide liquor ban ending in Prince Edward Island in 1948.

Prohibition clearly had a major impact; the number of alcohol related offences having declined markedly, for example. But it also brought in its train a series of undesirable consequences, including the criminalisation of behaviour that to most people was possibly anti-social but not criminally so. To many people, it was overkill to ban a substance most individuals used responsibly in order to control – very imperfectly and at high cost – the behaviour of alcohol abusers.

For most people, Prohibition was a disproportionate response to a real problem and an important diminution of personal freedom, resulting in a lot of complicity in circumventing the law. Indeed, protecting the integrity of the law was one of the main reasons offered for the repeal of Prohibition.

Ontario Premier Howard Ferguson, to choose one example, stated that his 1927 Liquor Control Act, which repealed Prohibition and brought in strictly regulated liquor sales, was “to allow people to exercise a God-given freedom under reasonable restrictions.” Ferguson was further quoted as saying the purpose of the Liquor Control Board of Ontario (LCBO) was to “promote temperance sobriety, personal liberty and, above all, to restore respect for the law.”

But there remained a strong sense that consuming alcohol, while not justifying a complete prohibition, was morally blameworthy or at least equivocal. And governments, as the legitimate guardians of public morality, had a right and a duty to regulate the consumption of alcohol to a high degree. But how high?

Well, in Ontario for instance, the LCBO from 1927 to 1962 required people who wanted to purchase liquor to possess a permit. They had to present these permits at the store and the clerk would enter information about what the person was buying.

The buyer had to fill in a purchase order form that included their name, address, and permit number as well as the kind and volume of liquor that they wished to buy. The purchase order form would be handed to an LCBO employee along with the individual's liquor permit and he would “examine [the] permit and see to what extent the purchaser has been buying liquor. If purchaser has exceeded a reasonable quantity per week, note permit number and address and refer to vendor.” Under the Liquor Control Act, the LCBO was tasked to promote temperance through facilitating education and moderation. This meant a store employee could deny a sale to a customer if his intended purchases were considered too much for one person to reasonably consume.

Purchase order forms remained in use into the 1970s when in a shocking break from the past the LCBO started to allow customers to serve themselves!

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The LCBO employed a so-called interdiction list, rather similar in principle to the notorious No Fly Lists used by national security agencies in various jurisdictions today. This list was used to control excessive purchases or other possible abuses, initially requiring a formalized legal process. Yet the LCBO was authorized to maintain the list from 1927 to 1975, even employing its own criteria to add individuals without needing to bother a judge (Wikipedia 2017).

By the time the interdiction list was abolished in the 1970s, it contained over 125,000 names. The moral enforcement nature of the provincial alcohol monopolies exists even today in a highly attenuated form, in the case of public-health-type justifications, such as policing sales to minors and to intoxicated people.

## Justifying Alcohol Monopolies

As Canadians became more relaxed about alcohol use, however, the justification for provincial alcohol monopolies began to shift. I would argue there are three chief ones. The first and most important is revenue raising. Alcohol sales generate a lot of cash. I'll talk more about this in a moment, but for now, let me tease out the connection between the moral ambivalence we have toward liquor and the revenue it generates.

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In effect, we have traded in an absolute ban – that is to say, Prohibition – for a system designed to make people pay through the nose for the right to engage in morally equivocal behaviour. That's why the popular name applied to the excise and other taxes slapped on liquor (as well as cigarettes and soon I suspect marijuana) is “sin taxes.” Canadians pay some of the highest such taxes in the world.

It is hard to imagine any other area of human activity where those engaging in it would accept the levels of taxation applied to drinking and smoking, but the lurking suspicion in people's minds I would argue is that they can't really complain because drinking is somehow, what, unsavoury? In the minds of the public there is probably a sense that the high price somehow balances the moral ledger. Smokers and drinkers therefore get little sympathy from politicians and voters. Something similar occurs, by the way, in government run casinos,

although it is more subtle. Research shows that payouts as a proportion of receipts are lower in government owned casinos than privately-owned ones.

Less noticed than the revenue benefit of provincial liquor monopolies is the political benefit, which flows to government from the physical presence in many communities of stores and employees who are essentially extremely well-paid civil servants.

The political benefit used to be more direct. When I was growing up in British Columbia, a friend of mine – a much older grizzled trade unionist and NDP stalwart – told me about when he was a young man under a Liberal government in the province. At the time, he had applied for a job at a local liquor store and right on the employment form the question was asked, “To what Liberal organisation do you belong?” Presumably, when the Tories were in power a blue question was asked rather than a red one.

As late as the 1970s, in Nova Scotia and perhaps elsewhere, the party in power was still engaging in what

used to be known as “tailgating,” when the provincial liquor commission purchased alcohol from a particular supplier and a percentage of the sale was then directed to the coffers of the party in power.

The benefits today are more diffuse and less directly tied to one party or the other, being associated more with a familiar presence in many communities and the source of extremely well-paid and often highly prized jobs. Construction of liquor outlets also provides local profile and jobs. Protectionist regulations and pricing still exist to protect local alcohol producers or processors, again with the objective of creating jobs in local communities.

The third major justification for the liquor monopolies is the public health benefit referred to earlier, which includes controlling sales to minors and preventing irresponsible behaviour by retailers.

## “Sin Taxes” and Revenue

As noted earlier, the original reason for the creation of a liquor sales monopoly – the protection of public morals – is at best a ghostly shadow of its former self. Protection of the public interest as the prime justification has been overtaken by the self-interested justifications of governments and political parties. This has important implications that will be discussed in a moment. But, for now, let’s spend a little more time delving into the matter of provincial governments’ insatiable appetite for money. I do so because the issue of revenue is now the key argument favouring liquor monopolies, followed closely by the employment and community presence factors.

In 2016 the Parliamentary Budget Officer (PBO) issued a report on the fiscal sustainability of governments in Canada (PBO 2016). The PBO concluded that while Ottawa’s public finances are sustainable, the provinces aren’t, at least on their current path, which in many cases has seen a frenzy of spending increases.

The PBO’s view is that the provinces must collectively take fiscal action totalling 1.5-percent of GDP (or \$30.2 billion in current dollars) to stabilize long-term public finances. In other words they either have to cut spending by that amount, raise taxes by that amount, or apply some combination of the two.

In this the provinces are stuck in a time-honoured Canadian conundrum – namely that Canadians like lots of government services but are politically resistant to paying a tax bill commensurate with those services. The strain is taken by the public debt, which is nothing more than deferred taxes; the higher the debt, the higher future taxes must rise.

In Ontario, for example, debt-servicing costs are by far the fastest-growing expense in the provincial budget – their growth rate is more than double that of education or health. And that is at a time of almost unprecedentedly low interest rates, a context which could shift very quickly. Already the expectation is for rates to rise in the United States as President Donald Trump’s policies stoke economic growth.

Because the provinces have allowed spending to spiral out of control, the upshot is that the provinces are quite seriously going broke and are realizing that “soaking the rich” in the form of raising top marginal tax

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rates has its limitations. Some may recall that New Brunswick was forced recently to reverse its hikes on high-income earners because of the economic costs (Curry 2016).

As an aside, the real reason the provinces are so agitated on health transfers from Ottawa is because they need the federal funding just to keep the ship afloat, not because they need to spend it on health. Remember that last year Ontario increased health-care spending by \$371 million and its health transfer payment went up by \$736 million, while Quebec increased spending by \$160 million and saw its own federal transfer go up by \$424 million. In other words the federal transfers have been a significant boost to general revenues that the provinces have been keen to keep flowing.

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As a result, the provinces are scrabbling in the bottom of every drawer for every cent they can find, including but not limited to alcohol and tobacco. One only needs to look at the 2016 Ontario budget, which raised a raft of alcohol taxes and related charges (Ontario 2016, 336). And Ontario is not alone. The latest figures I could find for the combination of liquor board profits and alcohol sales showed their combined worth being a cool \$13 billion to the provinces and territories in 2009 – an amount almost certainly worth substantially more today. Liquor board profits, for example, grow on average just over 3 percent annually.

For revenue hungry provinces, the “sin taxes” are a God-send precisely for the reasons I’ve already laid out. The people who bear the burden of these taxes have little credibility with the public in complaining about their tax burden. The only better kind of tax, at least from the point of view of politicians, is the 15 percent

tax on foreign buyers of residential properties in British Columbia, where the people targeted can’t vote and don’t even live in the local jurisdiction.

Incidentally, there’s no question this is why Premier Kathleen Wynne is so keen to have the LCBO sell pot (Benzie 2016). It’s hard to see how it can be for the kind of moral or social reasons that were the original justification for the provincial liquor monopolies, since the premier and her federal cousins have frequently argued there’s nothing wrong with pot.

Of course, they’re wrong about that (Barton 2014) – and the scientific evidence shows solid public health policy reasons to worry about the widespread availability and use of marijuana. But that is not the same thing as saying the current criminalisation is the correct response. Ultimately, the main attraction for politicians to be in the liquor and weed business seems to be as a solution to their own spending problem, which in itself might be a suitable target for a 12-step program.

The upshot is that the justification for provincial control of liquor sales has turned almost 180 degrees since the end of Prohibition. Far from being the kind of brooding, vaguely disapproving places I remember from my youth, liquor stores now seek to be hip, well-lit stores with an emphasis on associating alcohol consumption with a fun lifestyle, luxury, indulgence, and gourmet cooking. To gauge just how far things have come from the days of harsh lights and the plain brown wrapper, I only need to think back at the bag that I got a bottle of wine in at Christmas. Under the jaunty slogan of “Let’s get together” the bag exhorts me to “Click. Ship. Cheers! Now you can shop online at [lcb.com](http://lcb.com).”



## Vulnerability of Liquor Monopolies

In fact, one of the vulnerabilities of today's government liquor monopolies is that governments are caught in a profound conflict of interest. The heavy taxation of liquor (and tobacco and gambling) is politically justified by the harmful social effects of what are still regarded by most people as vices, even if not very serious ones. Yet their insatiable appetite for revenue and the relative ease of raising taxes on these products means that governments are necessarily torn between mitigating the public health effects of, say, drinking, and the plain fact that the more people drink the more revenue flows into the government's coffers.

I would argue that the regulator of such inherently harmful activities must not be someone who benefits from the economic growth of the activity in question. Governments plainly do not meet this test. Instead governments, in my view, are increasingly in danger of forgetting that it matters enormously to the integrity of public spending *how* the money spent is raised. Doing good with the money is not enough.

It is the job of government to decide what public services the community needs and can afford but also to ensure that the money raised to pay for those services meets certain standards. We endlessly debate the fairness of the tax system, the regressive nature of sales taxes, how the tax burden should be shared between individuals and corporations, how much harder the income tax should hit those at the top of the income scale than at the bottom. We also worry about how user fees will affect low income people. Ability to pay is a crucial part of the debate over taxes, as Margaret Thatcher learned when she was driven from office in part by a decision to impose a tax (the "community charge") that took no account of ability to pay.

Somehow "sin taxes" escape this scrutiny. Yet, if politicians are genuinely convinced that money is being spent on legitimate public purposes, then they should use the established tax system to collect those revenues, making everyone contribute their fair share under the law, and not just those vulnerable to the appeal of alcohol or smoking. According to the Chartered Professional Accountants Canada, the average Canadian family spends \$1,700 per year on excise taxes, which is chiefly taxes on alcohol and tobacco (Brearton 2014). And the analysis that has been made of these taxes shows that they fall far more harshly on the budgets of low income people than they do the well-off.

No matter what the politicians spending the money say, liquor stores don't generate new wealth for the community. They take money from locals who would have otherwise spent it on clothes, rent, and food (among other things), while exploiting human weakness to transfer that money into the hands of those same politicians to dispense on projects that they think make them look good.

Yes, we've always taxed vice (think tobacco and alcohol) and we should continue to do so. But clearly, the scale of revenues governments get from controlling – and not just taxing – alcohol have become so large, they are in danger of failing to focus on the damage drinking does. Governments that should be arm's length independent regulators of alcohol in the public interest are now, in my view, self-interested enablers.

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That's the moral weakness of the position of provincial and territorial liquor monopolies. But there are also important economic weaknesses too.

Monopolies by their nature are anti-consumer, because they transfer benefits from customers to the monopolist that are unwarranted by the benefits the customers receive. Monopolies can afford to be indifferent to the dissatisfaction of their customers because, ultimately, where are the customers going to go? In economic parlance, these unjustified benefits of monopoly are referred to as "rents."

In fact, it is often said that the best monopoly rent is the quiet life. After all, as a monopolist, you don't have to respond to those pesky customers and you don't need to worry about the clever innovations of your competitors.

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Some in this audience may be offended at the idea that the people who run Canadian liquor monopolies are indifferent to what customers want and they will say that they engage in all kinds of polling and other inquiries into consumer preferences. But, in competitive fields, the consumer expresses his or her preference directly by choosing where to spend their money. The behaviour of the provincial and territorial liquor monopolies in Canada is entirely typical of, say, the behaviour of Canadian airlines back when prices were fixed by government fiat, and airlines claimed to be competing on the basis of service.

But, once fares were deregulated, it was revealed that the vast bulk of people didn't give a damn about the quality of the meals, and if they did they were prepared to pay extra to get what they wanted. Most people wanted lower fares and to spend the money left over on other things. This kind of consumer choice

is exactly what monopoly, by its very nature, cannot deliver.

The Achilles' heel of monopoly is always the abuse that it engenders. In the case of liquor boards, the kind of abuses I have in mind are textbook cases of what is known as public choice economics, or how economic logic plays out where the rewards or incentives are chiefly political rather than economic.

For example, it is politically rewarding for provincial governments to have plenty of liquor stores in communities around the province and many employees in those stores. Because those employees are unionised, and can therefore shut down the entire highly lucrative liquor distribution system via strike action, their bargaining power is high. And since politicians pay the bill out of a huge stream of cash that is not under threat by competitors offering better deals or more convenience, they can afford to pay over the odds to keep the peace.

Note that the people who pay the price of this typical monopolist behaviour – the consumer – pays a small price individually. But the monopolist and those who benefit from the monopoly, such as its employees, enjoy huge advantages.

The average consumer might pay, for the sake of argument, a couple of hundred dollars a year more in liquor bills compared to a competitive situation, or the cost may come in inconvenience, poor service, lack of choice, and so forth.

Those who work for the liquor board, however, owe their entire livelihood to the status quo. That means, for example, that suppliers who might benefit from reform remain silent because they cannot afford to offend those who control access to the province's consumers. The most vociferous defenders of the status quo will be, say, public sector unions, who will spend major dollars to defend the current state of affairs, while those who foot the bill will hardly be motivated to protest their plight at all. In public choice, this is known as dispersed costs and concentrated benefits.

That this kind of counter-productive incentive system exists in most Canadian liquor jurisdictions is largely borne out, in my view, by the Alberta experience when it took the retail end of distribution out of the hands of the public sector. The result was major increases in convenience (far more outlets with more convenient hours), choice (major increase in the number of products offered to consumers, as measured by stock keeping units, or SKUs, in the system) and savings (employment of over-paid civil servants being replaced by ordinary store clerks paid at prevailing market wages in a range of retail settings from the luxurious to the utilitarian with prices to match). Any changes in government revenues are entirely the result of provincial policy choices, since the provincial taxing power is such that it can set whatever revenue target it wishes and achieve it, regardless of whether it has a monopoly distribution system or not.

## Challenges to Liquor Monopolies

It might be worth spending a moment on how what I have described changes the world of provincial liquor monopolies even from a few short decades ago.

We live in a world driven by the power of the consumer, and regulatory obstacles to consumers are falling all around us. Consider how Uber, for example, is successfully challenging the taxi monopoly in city after city around the globe, a monopoly entirely created by government regulation. Remember how the old landline telephone monopoly broke down under the assault of technology. Ditto for cable. Look at how all the old mainstream media sources including newspapers, radio, and television are being overtaken by new technologies unknown just a decade ago. Remember how air travel has been absolutely transformed by deregulation, with the benefits to consumers astronomically high through both more convenience and lower fares.

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The more that our liquor monopolies abandon the moral rationale for their existence and present themselves as consumer-friendly retailers indistinguishable from Loblaw's, Safeway, or Sobey's, the more people will judge their experience by consumer criteria – price, choice, and convenience. And that is a battle that will be difficult to win.

Think too about those cash-strapped governments that have been the liquor monopolies' best friend. The Alberta experience shows that the monopoly is not at all necessary in order to bring in revenue. On the contrary, my argument is that the monopoly, because of the sharing of monopoly profits with management and public sector unions, is a high cost way of getting the revenue. Put another way, governments could cut their revenue-raising costs by getting out of the business of liquor sales and simply taxing the private businesses that take its place.



I am also not alone in saying that the current provincial approach is not the best way to maximise revenue. According to a recent report by the C.D. Howe Institute, the Ontario government is actually forgoing revenue by preserving its monopoly on alcohol sales, and could reap bigger benefits – with consumers paying less – if it opened up the market to a greater number of retailers (Mason and Sen 2014). The report also found that Western provinces with more competition have 7 per cent more per capita in provincial alcohol profits than those with government-run monopolies. And there has been no evidence of any negative impacts of British Columbia or Manitoba’s decision to remove their restrictions on the interprovincial trade of alcohol (Handren 2014).

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That means liquor privatisation for purely economic and consumer reasons will continue to be a looming threat in various jurisdictions. It will be promoted mainly by parties that will make the case that liquor is a commodity like any other, it should be available in ways that consumers demand, and there is no justification for liquor retailing to be in the hands of civil servants as opposed to retailers.

Finally, consider the capital that cash-strapped governments have locked up in a retail distribution network in which they have no comparative advantage other than the monopoly itself. Someday their lack of fiscal discipline will make them vulnerable to a generous takeover offer that will allow them to monetise their assets.

Now let’s look at two other factors affecting the world liquor boards inhabit. One is trade agreements and the other is the Constitution and the courts.

With respect to international trade agreements, it seems to me that the pressure on boards is modest and aimed chiefly at access to consumers. Liquor boards have been used frequently as protectionist barriers to favour local beer, wine, or other products, or to maximise employment by forcing producers to carry out activities locally. This function, completely separate from those already mentioned as possibly justifying liquor boards, will result in increasing but probably not overwhelming pressure brought to bear on provinces. Our foreign trade partners have gotten the message that dealing with Ottawa is not enough to force the provinces to open up markets under provincial jurisdiction. So, for example, in the recently-concluded negotiations of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), the Europeans demanded that the provinces participate and sign on to the deal.

A newly protectionist United States has already signalled a renewed desire, for example, to get US wines into Canadian liquor stores, especially in the larger provinces. Provincial governments wishing to keep access for their automobiles, energy, softwood lumber, aircraft, and other products will not find it hard to trade away access to Canadian consumers for foreign alcohol. In any case, the role of foreign trading partners is rarely to challenge the local monopoly per se, but simply to get those monopolies to stop engaging in discriminatory behaviour. They will essentially win that battle but it will take some time.

Domestic free trade is a rather different kettle of fish. The provinces are widely, and rightly in my view, reviled for the obstacles that they have created to the free movement of goods, services, and people within Canada. The Agreement on Internal Trade negotiated almost 25 years ago has proven a paper tiger and I am deeply sceptical that the new agreement the premiers claim will be announced soon will be a major improvement.

In any case my understanding is that, as usual, there will be a “carve out” from the main agreement and that alcohol-related issues will be the subject of a separate working group that may, or may not, liberalise internal trade in alcohol. One thing we can be sure of, however, is that the provinces will not volunteer for anything that might put at risk their ability to make their local population pay whatever price the provincial government wants them to pay for alcohol.

But it is precisely that ability that is at risk in a new assault being launched on liquor board powers, this time via the courts and the Constitution.

This assault aims to exploit a key vulnerability: provinces don’t have the constitutional power to create such monopolies.

This was clear at the outset. In the 1920s, after our failed experiment with Prohibition and provincial liquor commissions were formed to control and regulate the trade in alcohol, everyone was acutely aware that provinces had no power to regulate international or interprovincial commerce. Prior to the end of Prohibition, Canada’s then-highest court, the Judicial Committee of the Privy Council, held not once, but twice, that provincial law could not affect bona fide transactions in liquor between a person in one province and a person in another. That remains our law today. Similarly, since the provinces have no jurisdiction over international trade, a province has no standing to prevent you from buying direct from your favourite distiller in Scotland or vintner in France.

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So, if your province can’t regulate international commerce or even interprovincial trade in alcohol, by what right does it stop you from simply bypassing the provincial board and buying directly? The answer is that Ottawa gave the provinces this authority through a 90-year-old law called the Importation of Intoxicating Liquors Act.

The provincial liquor monopolies are only made possible by Ottawa, not the provinces. If proof is required, simply ask yourself who it was that legislated recently to permit Canadians to bring two bottles of wine, one bottle of liquor, and a dozen beer home from another province? The answer: Ottawa. And there wasn’t a thing the provinces could do about it.

Think about that: Ottawa, allegedly the consumer’s best friend, the one government in the country that is supposed to be the unambiguous champion of a single national market, of the freedom of Canadians to buy and sell from each other without hindrance by parochial provinces, is the government that has carved up the national market in alcohol and handed it to the provinces on a silver platter.

With one stroke of a pen, Ottawa could free consumers to buy and sell as they wish, subject to perfectly legal rules about the drinking age and other public health concerns. If even the small opening Ottawa recently made in the interprovincial trade restrictions proves politically popular, why wouldn’t successive governments continue to gnaw away at them?

But that’s not all. There is a perfectly respectable and, in my view correct, argument that Ottawa doesn’t have the power to allow such monopolies under the Constitution either.

According to prominent lawyer and constitutionalist Ian Blue, Ottawa's law falls afoul of Section 121 of the Constitution Act 1867, which essentially says that the products of one province must be allowed freely into the other provinces. No exceptions. No federal override. We were creating one national market in 1867 and the Constitution said so.

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This was the case that New Brunswicker Gerard Comeau made last year before the courts when he was charged with illegally importing beer from Quebec to New Brunswick. And the provincial court judge agreed with him, finding that the Constitution forbade such barriers. The provincial Court of Appeal has refused to hear an appeal of that decision, essentially endorsing the original decision. That, of course, doesn't mean that this will be the ultimate answer from the courts, as New Brunswick is now seeking leave to appeal from the Supreme Court. I am quite confident that those here in this room – from various parts of Canada's Liquor Jurisdictions and relevant associations – will do everything in their power to fight this decision. But I think in doing so you will be on the wrong side of history.

Even if the cost of getting to the Supreme Court proves an insuperable barrier for Mr. Comeau and his friends, eventually someone with deep pockets and an eye on

the commercial opportunities that could be created, will take on this issue and fight it all the way. When that happens, my money is on the current legal structure for liquor sales being ruled unconstitutional. And court decisions, unlike actions by Ottawa, are not subject to federal-provincial bargaining, which is why the provinces have always preferred to see interprovincial trade issues settled by negotiation rather than by winner-takes-all legal decisions. That option, however, may well be foreclosed by the courts.

All is not lost, however. One powerful force you have going for you was symbolized by the election of Donald Trump in the US.

His victory was powered by those left behind by the brave new world of trade agreements and consumer-driven economies. The blue collar and lower middle class folks who have seen factories close, oil prices tank, energy prices increase, and imports rise, who are unemployed at 50 with few prospects and whose children went to university but are still living at home, see little reason to be as optimistic as those who party at Davos.

We saw this at work here in Canada long before Donald Trump. For evidence, look no further than the badly-misjudged plank in the Ontario Tories platform in the last election to eliminate 100,000 public sector jobs. Even though the Conservatives had been tipped to win the election, that promise turned the tide against them. An almost palpable feeling of disbelief swept the province as people digested the idea that at a time of great economic uncertainty a party was promising to make disappear 100,000 well-paying jobs distributed among communities across Ontario.

People who had such a job, or had a friend or relative in one, or lived in smaller communities where such jobs are prized, or owned businesses who count such people among their customers, were all spooked. The Liberals easily painted the Tories as out-of-touch and callous.

It is fear of change and the absence of clear credible alternatives that ultimately keeps alive public sector anomalies like marketing boards, the post office and, dare I say it, provincial liquor monopolies. That is probably the most potent political tool in the arsenal, and you probably have Donald Trump to thank for that.

Thousands of unionized employees work in your systems and are vocal and free-spending opponents of privatization. Governments hate change, fear (inaccurately) a loss of revenue, and love the employment, control, and profile their monopoly creates in communities across their province. And some members of the public are vulnerable to scare-mongering about runaway access to booze for underage drinkers and other social ills, despite the fact there is little evidence that less idiosyncratic distribution systems in other jurisdictions causes any higher degree of social damage from alcohol than prevails in Canada.

The good news then is, absent a provincial fiscal crisis that makes bold action unavoidable and politically palatable, the easiest thing for the average premier to do is nothing, other than throw the occasional bone to those calling for a more mature and consumer-driven approach to alcohol sales; for example, by incremental opening of sales in private retail outlets. And there will certainly be more of that, the cumulative result of which will be a slight acceleration of the modest incremental reforms we've seen in recent years, egged on by pressures from the domestic and international trade systems to cease engaging in blatantly protectionist measures.

The bad news is that, for the reasons I've outlined here, both the moral atmosphere and the balance of pressures on premiers is shifting, and decision-making can be taken out of their hands at any moment by Ottawa or the courts responding to litigation by powerful commercial interests or technological change. The provincial liquor monopolies have proven tenacious and long-lived. I wouldn't like to bet, however, on their being immortal.

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# About the Author



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Crowley has published numerous books, most recently *Northern Light: Lessons for America from Canada's Fiscal Fix*, which he co-authored with Robert P. Murphy and Niels Veldhuis and two bestsellers: *Fearful Symmetry: The Fall and Rise of Canada's Founding Values* (2009) and MLI's

first book, *The Canadian Century; Moving Out of America's Shadow*, which he co-authored with Jason Clemens and Niels Veldhuis.

Crowley twice won the Sir Antony Fisher Award for excellence in think tank publications for his health care work and in 2011 accepted the award for a third time for MLI's book, *The Canadian Century*.

From 2006–08 Crowley was the Clifford Clark Visiting Economist with the federal Department of Finance. He has also headed the Atlantic Provinces Economic Council (APEC), and has taught politics, economics, and philosophy at various universities in Canada and Europe.

Crowley is a frequent commentator on political and economic issues across all media. He holds degrees from McGill and the London School of Economics, including a doctorate in political economy from the latter.



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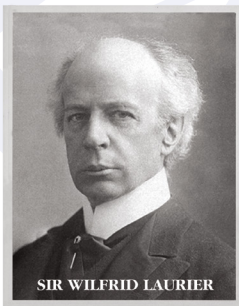
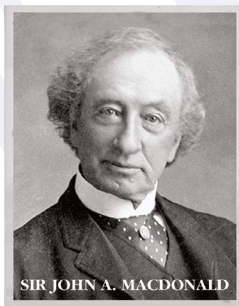
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