

# Intelligence MEMOS



From: Rosalie Wyonch and Farah Omran  
To: Concerned Ontarians  
Date: August 14, 2018  
Re: **THE FALLACY OF BUCK-A-BEER**

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Ontario Premier Doug Ford recently announced a [“Buck-a-Beer Challenge” for brewers to lower prices in time for Labour Day](#), the policy change lowers the minimum price of beer in Ontario. In exchange for lowering their prices (and profit margins) brewers will, for a limited time, receive LCBO promotional considerations such as limited-time discounts, in-store displays on end aisles and shelf extenders, or advertising in LCBO flyers and newspaper inserts.

This policy contains many policy issues at its core: price floors, crown corporation monopolies, and the subsidizing of particular market behavior. The policy itself is unlikely to be effective.

The minimum price is an artefact of the LCBO’s “social responsibility” mandate. More than 40 years of research have established a [link between the cost and consumption](#) of alcoholic beverages. Alcohol abuse and over-use is serious and ongoing public health issue. In Ottawa alone, there were about [6,100 emergency department visits and 140 deaths annually attributable to alcohol between 2013 and 2015](#). Minimum prices are set to discourage consumption and are only justifiable if the consumption results in negative outcomes for society. They are a direct manipulation of the free market to encourage a particular outcome, in this case lower alcohol consumption. If the minimum price is very low, below the level at which most producers already sell, it does not serve to reduce consumption ([though it can serve as a defence against predatory pricing](#)).

Changing the minimum price doesn’t change producer costs. Only producers currently producing a beer that is priced at the minimum are likely to lower prices, but even that is not guaranteed, as many brewers are [rejecting this proposal describing it as unaffordable - only one has agreed to participate so far](#). The cheapest single beer you can currently buy at LCBO is priced at \$1.45 for a 275 ml bottle and a few brands at the beer store sell 24 bottle packs for \$35.50 (\$1.38 per bottle + \$0.10 deposit). In addition, trade pressures are increasing brewers’ costs of production ([especially aluminum tariffs](#)). Further, lowering the minimum price doesn’t lower the LCBO’s mark-up, volume levy, environmental levy, or costs of service. Nor does it lower excise or consumption taxes.

Offering the promotional inducements to producers also manipulates the market because certain producers will have advantages that others can’t access. Subsidizing a particular market result is not good policy unless it serves to correct a market imbalance to improve welfare: creating incentives to lower the price of a detrimental intoxicant is the exact opposite of this.

If the government was serious about getting its hand out of people’s pocket, it wouldn’t have reduced the baseline rate, it would have reduced the LCBO mark-up or the excise tax, which ultimately determines what you pay as a customer. Taking this one step further, [research suggests](#) that a surer path to lower prices would be increasing competition in Ontario’s alcohol retail system; it could also result in more convenience and choice for consumers and higher government revenues.

All in all, the “Buck-a-beer” challenge will likely be ineffective, since the price of beer is determined by much more than for the minimum price floor, including many hidden levies and taxes. If the government really wanted to make beer cheaper, it could increase competition in the alcohol market or lower its share of revenues rather than inefficiently distorting markets. The public health practitioners and researchers who think that lowering the minimum price of beer will result in more deaths and more hospitalizations should be pleasantly surprised to find out that the policy change only affects a few products and it likely won’t actually significantly lower the price of alcohol in general.

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