

Policy Analysis

Minimum Pricing

I. Minimum pricing in Connecticut prevents price competition and causes higher retail prices, reduces retail sales and state tax revenues

The requirement that all Connecticut retailers price their product at or above a posted minimum bottle price in Connecticut eliminates retail price competition in the state. Elimination of price competition means that consumers pay higher shelf prices, leave the state to make purchases or purchase lower cost items.

Various surveys have shown that the total impact of the minimum bottle price requirement increases retail prices for spirits and wine 8-9% above surrounding states. Some surveys have shown even higher prices, with as much as a 24% difference between the per-bottle case-price and the minimum mandated single bottle price.

Higher prices reduce retail sales in two ways. First, higher prices cause people to reduce the amount that they purchase. However, in a state like Connecticut where shoppers have easy access to lower priced stores in neighboring states, many Connecticut citizens simply drive to nearby Massachusetts and Rhode Island to shop. Unfortunately, when this happens the state loses not only wine and spirits sales, but sales of other products as well and the accompanying tax revenue on all those sales.

Removing the minimum pricing requirement would increase state excise and sales tax revenue by \$5.2 to \$8.1 million annually.

The table below shows what the sales and tax implications would be if the general pricing level fell by between 7 to 11%. A 7% reduction in price would generate nearly \$5.2 million in new sales and excise taxes, while an 11% price reduction would bring in \$8.1 million in new tax revenues



Estimated New Tax Revenue from Removal of Minimum Bottle Pricing in Connecticut

Price Decline					
Percent Volume Impact					
	7%	8%	9%	10%	11%
Spirits	0.0553	0.0632	0.0711	0.079	0.0869
Wine	0.0385	0.044	0.0495	0.055	0.0605
New Volume (Gal.)					
Spirits	370,107	422,979	475,852	528,724	581,596
Wine	547,062	625,213	703,365	781,517	859,668
Retail Value					
Spirits	\$28,468,198	\$ 32,535,084	\$36,601,969	\$ 40,668,855	\$ 44,735,740
Wine	\$15,463,551	\$ 17,672,630	\$19,881,708	\$ 22,090,787	\$ 24,299,866
New Excise Tax					
Spirits	\$ 1,998,577	\$ 2,284,088	\$ 2,569,599	\$ 2,855,110	\$ 3,140,621
Wine	\$ 393,884	\$ 450,154	\$ 506,423	\$ 562,692	\$ 618,961
Total	\$ 2,392,461	\$ 2,734,241	\$ 3,076,021	\$ 3,417,802	\$ 3,759,582
New Sales Tax					
Spirits	\$ 1,807,731	\$ 2,065,978	\$ 2,324,225	\$ 2,582,472	\$ 2,840,719
Wine	\$ 981,935	\$ 1,122,212	\$ 1,262,488	\$ 1,402,765	\$ 1,543,041
Total	\$ 2,789,666	\$ 3,188,190	\$ 3,586,714	\$ 3,985,237	\$ 4,383,761
Total	\$ 5,182,127	\$ 5,922,431	\$ 6,662,735	\$ 7,403,039	\$ 8,143,343

Assumptions:

An average price of \$15.24 per 750 ml of spirits was used along with a wine price of \$5.60 per 750 ml.

Price elasticity of demand for spirits was assumed to be -0.79 and for wine -0.55. Both figures are often cited in economics literature.